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REAUTHORIZATION OF THE FEDERAL-AID HIGHWAY PROGRAM

HEARING

BEFORE THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

MARCH 6, 1986

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REAUTHORIZATION OF THE FEDERAL-AID HIGHWAY PROGRAM

THURSDAY, MARCH 6, 1986

U.S. Senate,
Committee on Environment and Public Works,
Washington, DC.

The committee met, pursuant to notice, at 10:02 a.m., in room SD-406, Dirksen Senate Office Building, Hon. Robert T. Stafford (chairman of the committee) presiding.

Present: Senators Stafford, Symms, Abdnor, Humphrey, Bentsen, Burdick, Moynihan, and Lautenberg.

OPENING STATEMENT OF HON. ROBERT T. STAFFORD, U.S. SENATOR FROM THE STATE OF VERMONT

Senator **Stafford**. I welcome you to the hearing this morning. It is a special pleasure to welcome the Secretary of Transportation, Elizabeth Dole.

I believe, Madam Secretary, this is your first appearance before the committee since we had our meeting with you prior to your confirmation. We hope that we don't have this much time elapse before you are here again after today.

The committee has had the administration's legislative proposal before it. I am certain that we will give the proposal very serious attention. I suspect, of course, that there will be some provisions that we agree on, and some that we may disagree on.

I believe that we do agree on one important goal to be accomplished by 1990, and that is the completion of the Interstate System so that pressing needs in the rest of the program can be addressed. State and local officials are best equipped to determine what remaining interstate construction work should be completed. I agree that they should be given the flexibility to make those decisions. However, the States cannot be expected to finish the Interstate System in the next few years if funds are not made available on schedule.

Congress' inability to approve interstate cost estimates in a timely way during the last 3 years caused major disruptions in the highway program. We must eliminate the need for any further ICE aporovals.

There is one area where I must disagree with the administration bill. As long as funds are made available for interstate construction, I will also continue to support the one-half of 1 percent minimum for those States that have completed their interstate construction programs in a timely way, and have been forced to neglect their primary and secondary roads in consequence to complete the interstate.

Even after the nickel gas tax increase in 1981, highway needs continue to exceed available resources from all levels of government. I do not believe there will be an increase in the Federal highway user fees in the near future.

During the hearings held by the Subcommittee on Transportation last year, the committee looked at alternative methods of financing the highway program. One alternative, I believe, the committee will and should seriously consider is lifting Federal restrictions on combining toll roads with Federal-aid funds to build new noninterstate roads.

There are many other issues members of the committee will want to discuss with our witnesses this morning. This is an important year for the Federal-Aid Highway Program, and I look forward to working with the Secretary of Transportation, Ray Barnhart, and others, in accomplishing the programs after reauthorization.

Without objection, I am going to reserve, for other Senators who may come in when they can, the opportunity to either place their statements in the record, or to read them into the record, especially Senator Symms who is the chairman of our Transportation Subcommittee, and Senator Burdick, if he is able to get here, who is the ranking member of the subcommittee.

[Senator Bentsen's opening statement, placed into the record at this point, follows:]

OPENING STATEMENT OF HON. LLOYD BENTSEN, U.S. SENATOR FROM THE STATE OF TEXAS

Senator BENTSEN. First of all, I am delighted to welcome you, Madam Secretary, Ray Barnhart, and Mr. Stanley. I have enjoyed working with you. I think you are certainly very able and responsible members of the administration.

Now that I have said all of those nice things, why in the world would you add a provision putting a $250 million cap on the minimum allocation funds. You know how I feel about that one. I fought, bled, and almost died over that provision. Since 1956 when this program started, there have been a number of States who have given far beyond what they have received from this program.

So in 1982, we put in a provision for an 85-percent allocation to try to get at least part of our money back for the donor States. The intent of the Congress was that that was a guaranteed 85 percent. It was a permanent provision of title 23. It was an agreement of the conferees. I continue to believe that the donor States are entitled to at least that kind of a minimum return.

We were talking about 90 percent, and we finally settled for 85 percent. A cap of $250 million violates the agreement of the conferees, the intent of the Congress, and the assurance that was made to the donor States. The State of Texas alone has contributed over $2 billion more into the trust fund than it has received back, and those sacrifices haven't been made without effort.

The Texas Highway Department tells me that they depend very heavily on these minimum allocation funds. The department anticipates a need for additional minimum allocation funds over and above the amount allocated for fiscal year 1987 and beyond. One of the reasons that those funds are so desperately needed is because my State, and some of the other donor States, for years, have been trying to develop their transportation systems on less than 85 cents out of every $1 that it generates.

The administration proposes this minimum allocation cap to save approximately $87 million, according to my estimates. That reduction, along with the others, notably on interstate construction, meet the mandated Gramm-Rudman budget reduction. I would point out that the donor States have already experienced a disproportionate share of highway cuts by virtue of the 4.3-percent across-the-board cuts on total Federal-aid for highway programs.

So in 1987, it will again have its funds proportionately with other States. The proposed minimum allocation cap is an additional revenue cut imposed only on the donor States who are already being imposed on by this program. Meanwhile, the donee States will continue to receive more than $1 for each $1 contributed to the trust fund. Although the basic principle of State sharing resources must and will continue, what is being proposed here, I think, is totally unacceptable. I am obviously going to fight this kind of proposal of a minimum allocation cap.

Thank you, Mr. Chairman.

Senator STAFFORD. I note with pleasure that Senator Lautenberg is here. Senator, do you have an opening statement?

Senator LAUTENBERG. I do, Mr. Chairman.

Senator STAFFORD. All right.

OPENING STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM THE STATE OF NEW JERSEY

Senator LAUTENBERG. Welcome, Mrs. Dole, Mr. Barnhart, and Mr. Stanley, we keep meeting under similar circumstances here.

In 1982, the Congress met in an extraordinary postelection session to consider a major rewrite of our highway and mass transit programs. The STAA was the product of long deliberations and painful compromise, and it was a landmark bill.

For the first time, the needs of highway and mass transit moved toward better balance. It is fair to say that without the support of mass transit provided in that bill, support for the highways would not have been secured.

The administration's proposal, which we are discussing today is a drastic departure from that balanced compromise of 1982. This proposal abandons any balance between highways and mass transit. In New Jersey, the most densely populated State in the Nation, it will not ease the transportation which is necessary to enhance the economy. It will instead lead to longer rush hours and economic hardship.

The goal of the Congress in 1982 was the rapid revitalization of the Nation's infrastructure and development of a balanced transportation system. If we undermine that revitalization effort, and upset the balance, we are going to do long-term harm to our economy. In addition, we will fail to recognize the diversity of our national needs, and the different needs of its various regions.

So it is in this light that I am going to be evaluating the proposals before us.

Thank you, Mr. Chairman.

Senator **Stafford**. Thank you very much, Senator Lautenberg.

Now, the chairman of our Subcommittee on Transportation, Senator Symms is here.

OPENING STATEMENT OF HON. STEVE SYMMS, U.S. SENATOR FROM THE STATE OF IDAHO

Senator **Symms**. Thank you very much, Mr. Chairman, and Senator Lautenberg.

Madam Secretary, we are delighted to have you with us this morning, with your very fine associates. We are glad to have Ray here, he has been a very dedicated administrator, and we appreciate the work he has done. Likewise, Mr. Ralph Stanley, a dedicated administrator of the Urban Mass Transit Administration. We are delighted to have all of you here this morning.

This is our first hearing on the reauthorization of the Federal-Aid Highway Program, and I would add that we have had eight hearings in 1985 in preparation for the authorization, so we are getting ready to start moving forward on highway legislation.

As you all know, the highway program must be authorized by October 1, and I am pleased that the administration has transmitted the proposed legislation to Congress. The purpose of today's hearing is to provide the DOT with the opportunity to present the bill and discuss it with members of the committee.

I will give this proposal serious attention, and I look forward to working with the DOT in passing highway legislation before October 1. In fact, it would be my hope that we could have it done before the 4th of July. That may be overoptimistic, but I think that it is a good target.

In the next few weeks, the chairman and I, and the other members of the committee who care to join us, intend to introduce legislation which will incorporate portions of the administration's proposal, along with other provisions for the committee's consideration.

In 1981, the Congress passed the Surface and Transportation Act of 1982, and this bill not only authorized the highway program for 4 years, it increased the Federal gas tax and other highway user fees. The user fee increase was done in response to a growing concern over the conditions of the Nation's highways. Our highways were deteriorating to the point of hampering the country's mobility and its ability to efficiently move goods, and the national defenses were threatened. We were losing large capital investments in the country.

I think that it is in the best interest of the country to have a good network of roads, and that is why we moved forward on that legislation, and why it was signed into law in 1982. I believe that the country supported the STAA of 1982, and the Congress passed the bill, and the President signed it, because everyone believed that those user fees would all be spent on our roads and bridges. They believed that every cent they paid in gas taxes and truck taxes would result in improved and more efficient networks of roads, and they were right, but only partly right.

Funding for the program has increased, and we have seen major improvements in the condition of our highways, but not all the money collected has been made available to the States. We still have a balance in the highway trust fund of over $9 billion. There is close to $7 billion in funds apportioned to the States which they have not been allowed to spend because of obligation ceilings each year.

Now the Office of Management and Budget says that the interest accruing to the Federal trust fund cannot be spent on highway projects. The highway program has also been subject to cuts imposed by the Gramm-Rudman Act, and may face serious reduction in the budget process again this year, even though spending in the highway program does not contribute to the deficit.

I personally believe that if we are going to collect user fees to fund the highway program, we have an obligation to spend that money on highways, and it should not sit in the trust fund collecting interest while we watch our highways turn to potholes and our bridges collapse.

The needs are there. The American Association of Highway and Transportation Officials recently estimated that $26 to $30 billion will be needed each year to provide the kind of transportation network we have all come to rely on. One of the first national priorities must be to complete the Interstate System by 1990 so the pressing needs on the existing system and capacity can be addressed.

It will be difficult to determine the structure and direction the highway program should take until the Interstate System is determined to be complete, and these funds are available for use in the rest of the highway program.

Also, I believe, we should review the highway program to provide increased cost effectiveness in the obligation of Federal funds. Certainly, there is room for improvement in this area, particularly with regard to implementation of the Davis-Bacon Act.

I also am concerned about the increased reliance on highway funds in sanctions designed to force the States to enact and enforce laws, such as the 55-mile-an-hour speed limit, and the minimum drinking age.

As I said in the committee many times, I believe the transportation network in the country is absolutely vital to economic growth, and personal mobility and personal freedom, if you will. I would look forward to hearing from our witnesses today.

I might just say at the outset that yesterday, at the Budget Committee, I raised this issue, and I don't know if my two colleagues were there, but I think that we should be very careful with respect to the integrity of the Federal Government. When we pass legislation that sets up a Federal trust fund, then we have a commitment to spend that money on those roads and bridges.

I want to say to the committee that at the White House, about 2 weeks ago, at a breakfast meeting with about 15 or 16 other Senators, I raised this question with the President, and he made it unequivocally clear that it was his intention, when he signed the Surface Transportation Act, that he wanted all of the money, except for the 1 cent that he compromised on earlier, that goes to mass transit, to be spent on roads and bridges, and the safety program. He said that he would not compromise on that issue.

Seated across the table from me was the Director of the OMB, and I asked him, "Did you hear the boss, Jim?" He nodded his head and smiled, but that is not the numbers that have come up here. I think that we ought to make it very clear on this committee that we are not going to compromise what we have done because it has no negative impact on the Federal budget. As long as we don't spend any more money out of the trust fund than is in the trust fund, it is a net neutral impact with respect to the Federal budget and Gramm-Rudman.

This money is being taxed directly for a purpose, and it should be spent for that purpose. As far as I am concerned, I am going to make a big push. I am not unwilling to compromise with my colleagues and with the administration, but I think that this point of view needs to be given full and enthusiastic understanding, and then, I think, that we can cooperate well if we get that.

I thank you very much, Mr. Chairman, and I want to thank my colleagues.

Senator **STAFFORD**. Thank you very much, Senator Symms.

Senator Abdnor, do you have an opening statement?

OPENING STATEMENT OF HON. JAMES ABDNOR, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator **ABDNOR**. Thank you, Mr. Chairman, I will be extremely brief.

I certainly want to welcome Secretary Dole, Ray Barnhart, and Mr. Stanley to the hearings today.

I have just returned from a banking committee meeting, and I wanted to be there to talk about the situation in my State, South Dakota, as it pertains to agriculture. You might say, what has that to do with highways, but I think that there is a connection.

I am the chairman of the Water Resources Subcommittee, and we are presently writing a water bill which contains some cost-sharing provisions which takes into account the States ability to pay.

I was alarmed yesterday, Mr. Barnhart, being over at the Appropriations Committee with you when I heard some of the possibilities that must be coming up in the bill.

I went to see the President a couple of months ago, we were talking about the growth in the economy, and I said, it can grow all it wants, it is not going to help South Dakota right away because everything we have is based on agriculture. It is the same with many of the surrounding States, they are so dependent on an agricultural economy, and as it goes, so go the States. I get a little upset when I hear some of the possibilities that you are going to be talking about in this new highway proposal.

While everyone is here, I am just going to say, I want you to remember, Mr. Chairman, that some States went ahead, years ago, and built those interstate highways when they were supposed to, when they were asked to do it, and now they have to extend the life of their roads, and it is a heck of a time to be talking about changes, cutting back, and a whole new formula.

I will just mention that this morning, as I have come to hear our witnesses. I thank you very much, Mr. Chairman.

Senator **Stafford**. Thank you, Senator Abdnor.

The ranking member of our Subcommittee on Transportation is here now, Senator Burdick, who, I understand, rode the planes all night to get here.

Senator **Burdick**. Mr. Chairman, my opening statement will take about an hour.

I ask that it be made part of the record.

Senator **Stafford**. Without objection, it will be made part of the record. Calvin Coolidge would be proud of you.

[Senator Burdick's statement follows:]

OPENING STATEMENT OF HON. QUENTIN N. BURDICK, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

SECRETARY DOLE, I AM PLEASED THAT YOU HAVE AGREED TO TESTIFY TODAY ON THE ADMINISTRATION'S BILL AND BUDGET MATTERS. I BELIEVE THAT THIS IS THE FIRST TIME YOU HAVE COME BACK SINCE YOU APPEARED BEFORE THIS COMMITTEE FOR YOUR NOMINATION HEARING. WE APPRECIATE THIS OPPORTUNITY TO DISCUSS WITH YOU FIRST-HAND THE LEGISLATIVE PROPOSAL.

AS YOU ARE AWARE, THE HIGHWAY CONSTITUTENCY IS VERY INTERESTED IN REAUTHORIZING THE HIGHWAY PROGRAM BY OCTOBER 1. CONGRESS MUST PASS A BILL WHICH WILL ENSURE A SAFE, EFFICIENT AND WELL-MAINTAINED HIGHWAY SYSTEM. THIS NEED MUST BE BALANCED AGAINST THE NATIONAL EFFORT TO REDUCE THE DEFICIT AND TO PROVIDE FINANCIAL SOUNDNESS FOR THE HIGHWAY TRUST FUND. THIS BALANCING ACT WILL BE DIFFICULT. PERSONALLY, I DO NOT FAVOR ANY FURTHER REDUCTION IN THE HIGHWAY PROGRAM.

OVER THE NEXT FOUR YEARS, IT IS VERY IMPORTANT FOR CONGRESS TO SET THE OBLIGATION LIMITATION AT OR VERY CLOSE TO THE LEVEL OF AUTHORIZATIONS. BECAUSE CONGRESS HAS SET LOWER OBLIGATION LIMITATION CEILINGS THAN AUTHORIZATIONS, IT NOW HAS TO LOOK AT THE UNINTENDED EFFECT OF IMPOSING ADDITIONAL RESTRICTIONS ON SPENDING. IF IT DOES NOT, THE BYRD AMENDMENT WHICH FOCUSES ON UNFUNDED AUTHORIZATIONS MAY BE TRIGGERED EVEN THOUGH THERE IS PLENTY OF MONEY IN THE ACCOUNT.

I AM SURE THAT MY COLLEAGUES AND I WILL HAVE PLENTY OF QUESTIONS TO ASK OF YOU AND YOUR TOP ADMINISTRATORS, RAY BARNHART AND RALPH STANLEY. MANY OF THOSE QUESTIONS WILL BE RELATED TO PROPOSED CHANGES THAT DIRECTLY AFFECT THEIR STATE. SEVERAL OF WHICH IS THE FUNDING MECHANISM FOR SUBSTITUTE HIGHWAYS AND MASS TRANSIT AND ELIMINATION OF THE ONE-HALF OF ONE PERCENT interstate TRANSFER.

WHILE YOUR AGENCY HAS MADE AN EFFORT TO PROVIDE STATES WHICH HAVE COMPLETED THEIR PORTION OF THE INTERSTATE SOME EXTRA FUNDS, IN LIEU OF DROPPING THIS IMPORTANT PROVISION, THE MATH DOES NOT WORK WELL IN OUR FAVOR. I DO NOT EXPECT THE ADMINISTRATION TO CHANGE ITS MIND. HOWEVER, I WANTED TO LET YOU KNOW IT IS AN ISSUE.

I LOOK FORWARD TO HEARING YOUR TESTIMONY. IN ADDITION, I WOULD LIKE TO WELCOME MR. EDWARD GRAMLICH FROM THE CONGRESSIONAL BUDGET OFFICE WHO WILL FOLLOW THE DEPARTMENT OF TRANSPORTATION PANEL.

Senator **Stafford**. Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator **Moynihan**. Mr. Chairman, I can't forego a short opening statement, and I am not going to ask the Secretary for any money. How many of these have you heard this year?

I am going to speak about a request that New York State has made of you, which is going to be a generalized request, to enable us to run a fiber optic system, below ground, along the length and breadth of the New York State Thruway.

This is not an opportunity to impress you because I know how strongly you feel about this, but I am not sure that the Federal Highway Administration does. I would like to go through a brief history.

The Interstate Highway System was thought up by Robert Moses of New York in the 1930's, and endorsed by President Franklin D. Roosevelt as a public works measure, and as a great enterprise. Indeed, it turned out to be the largest public works program in the history of the world, and it was to be the equivalent for automobile and truck transport of the railroad.

The matter lingered, and then the postwar period came, and New York State proceeded to build the first segment of the Interstate Highway System on its own. It is called the New York State Thruway, and it runs the ancient route from New York City up the Hudson, across the Mohawk, down the valley, the Erie coast. Eighty-five percent of our people live within 15 miles of the Thruway.

It was designed by an inspired civil engineer named Burt Tellamy. I don't know that Burt Tellamy ever made $28,000 a year in his life, but he carried out the largest public works program in history.

Having built this program by ourselves, and paid for it by ourselves, we proceeded to support, in the Congress—are you listening, sir?

Mr. **Barnhart**. Sure.

Senator **Moynihan**. We proceed to support the extension of the program throughout the country paid by gasoline taxes which we, too, would pay, while we paid tolls on the first segment. Burt Tellamy went down to Washington, under President Eisenhower, and took over the Bureau of Public Roads, a tiny little program in the Department of Commerce, that was mainly farm to market roads, and he built this thing.

Now, 30 years later, New York State—we gave you the design, we gave you the designer, we built the system. We developed the system that said, no billboards, no obstructions. We designed this highway system. None of these things that you are sort of letting show up on Federal-aid highways around the country, chopping down trees, we said, you can't do that, and that is why you don't see them on the Interstate System.

Now, 30 years later, having built this, having paid for this thing, having conceived this thing, we ask permission to send a fiber optic cable underground along the way, and we can't get it from you.

The simple fact is, we thought up the New York State Thruway. We designed it. We built it. We paid for it, and we own it. Why won't you let us do something as elemental as putting an advance technology along the system?

You keep it up and a fellow named Ronald Reagan is going to come along and say, "I am sick to death of Government bureaucracy choking the initiative of the American people."

Really, it is a disgrace. With great respect, and the utmost detail, we have come and said: "We know how to design an interstate system, we are the ones who did it." Your bureaucracy is just mumbling around and saying, "Well, this would be different, this would change something, and we don't know, and Burt Tellamy is not around to ask if it is OK."

Are you going to help us? If you don't, by God, we are just going to be wild.

Senator STAFFORD. Madam Secretary, why don't you think over an answer until we have completed the opening statements, if that is agreeable to Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

Thank you for your graciousness in listening.

Senator STAFFORD. I notice another valuable member of our committee, and my neighbor, Senator Humphrey, has arrived. Senator Humphrey, do you have an opening statement?

Senator HUMPHREY. Just, good morning.

Senator STAFFORD. That gets the second Calvin Coolidge award.

I have a letter from Senator Chiles containing comments on this bill which will be inserted at this point in the record.

[The letter referred to follows:]

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United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510

March 6, 1986

The Honorable Robert T. Stafford
Chairman
Committee on Environment
and Public Works
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I am writing to provide comments on the Administration's proposed four-year Highway Reauthorization bill submitted on February 5, 1986.

As you know, this legislation proposed to fund the Interstate Construction program at an annual level of $1.6 billion as opposed to the current level of $4.0 billion. In appropriation hearings with Secretary Dole and Administrator Barnhardt, I have confirmed that this will result in a stretch out of interstate completion to 1998 and represents a downgrading of the priority placed on completing the interstate system. Based on the fact that we have placed a long-standing priority on completing the full 42,500 miles of the interstate system by 1990, it seems unfair to those states with incompleted miles to now stretch out completion another 8 years. Additionally, by placing Interstate Construction in a block grant program further permits states to use the reduced level of Interstate Construction for other purposes.

On another point, I was pleased to see that the Administration has proposed to permit toll financing to be used with Federal-Aid highway dollars. I was disappointed to see that the Administration's toll proposal only applied to new facilities as opposed to expansion of existing facilities to accommodate new capacity. It would certainly seem desirable to me if we first encouraged expansions of existing facilities before we encourage building new roads across the countryside.

The Honorable Robert T. Stafford
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March 6, 1986

In summary, I would urge the Committee to restore Interstate Construction to the $4 billion level and to not include this vital program in a block grant mechanism. Additionally, I would hope that the Committee bill will include a toll provision similar to the one incorporated in S. 1488 to permit this funding alternative to play a significant role in filling the funding gap created by the continuing needs for fiscal austerity.

With best regards,

Sincerely yours,

Lawton Chiles

Lawton Chiles

LC:mhm

Senator STAFFORD. Now that we have completed opening statements, Madam Secretary, we would be delighted to hear yours.

STATEMENT OF HON. ELIZABETH HANFORD DOLE, SECRETARY, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY RAY A. BARNHART, ADMINISTRATOR, FEDERAL HIGHWAY ADMINISTRATION; AND RALPH L. STANLEY, ADMINISTRATOR, URBAN MASS TRANSPORTATION ADMINISTRATION

Secretary DOLE. Thank you so much, Mr. Chairman, and members of the committee.

I am delighted to come before you today to discuss the Surface Transportation Reauthorization Act of 1986. Of course, you know the two gentlemen with me, they need no introduction this morning. I am delighted to have both Ray Barnhart and Ralph Stanley here as well.

Sweeping changes certainly are shaping a new America with mobility needs that are quite different from those of the past. Our Nation's Federal aid programs for highways, transit, and safety must be responsive to those changes.

It has been said that a journey of 10,000 miles has to begin with a single step. The journey which we must travel together, now and in the months to come, will involve many steps taken on many fronts. One such step is certainly this major piece of legislation before you this morning.

By the way, I look forward to taking that journey with you, and to working with you at each step of the way.

As the Surface Transportation Assistance Act of 1982 comes to an end, one of the most challenging tasks before Congress and the administration will be to create the kind of Federal-aid programs which will respond to the 1990's.

The new America has needs quite different from those 40 years ago when the Interstate System was conceived. People are changing where they live, and where they work. According to the 1980 census, more than half of all workers in our large urbanized areas travel to jobs located outside the central city. At the same time, the number of suburban residents commuting to other suburban work locations grew by over 50 percent.

The programs that we reauthorize this year must respond, as I have said, to these changing needs. We must give States and local decisionmakers the tools and the flexibility to meet their own unique transportation needs. We must give them increased control and responsibility over transportation investment decisions. We must provide a program structure facilitating long-term transportation planning and balance between alternative modes of transportation.

This can be done. In Houston, TX, the city in which transportation is a critical issue, a plan was developed by the State highway commissioner, the mayor, the transit authority, and the county road department. It was not a highway plan or a transit plan, but a plan addressing regional mobility.

The result has been the construction of a network of busways funded by both Federal transit and highway dollars, rather than separate projects. Such joint efforts will be encouraged by the policies that are represented in this legislation.

Under the current program structure, these success stories are rather limited. In a great many instances, the existence of Federal aid categories has been the driving force behind investment decisions. States undertake projects principally because special categories of Federal funds are available, and the use of the funds is limited to such projects. Receiving the maximum in Federal funds, rather than meeting real world needs, sometimes drives investment decisions. Our proposal will change this.

The legislation we propose provides such a vision of the future and an integrated approach to our national highway and transit policies. The reauthorization legislation would restructure the highway program into four major parts.

First, the interstate/primary program composed of the current interstate construction, interstate 4R, and the primary programs; second, the bridge program for primary bridges, other than interstate; third, safety programs, including the hazard elimination and railway-highway crossings safety construction programs; and fourth, the highway and transit block grant program composed of the former urban, secondary, and nonprimary bridge highway programs, and certain transit programs.

In order to give the States increased flexibility to address critical national needs, the interstate construction, interstate 4R and primary programs are merged into a single program. At a time when requirements to reduce the Federal deficit make it necessary to reduce program levels, the combined program offers the States more flexibility to complete high-priority work on their own agenda.

The new structure recognizes the need to balance the preservation of the existing major highway system with the need to build new highways. The combined program will be authorized at the level of $7.8 billion per year. It would approximate the current relative distribution of these funds among the States.

States would have an incentive to allocate funds to the Interstate System because the Federal share for interstate projects would continue to be 90 percent, while the Federal share for primary projects would continue to be 75 percent.

With the initiation of the highway and transit block grant, the Federal-interest bridge program would include only noninterstate primary system bridges. Bridges on the Interstate System would be eligible under the interstate/primary program. The new bridge program would be authorized at $1.25 billion per year for fiscal years 1987–90 to address these needs.

Since there is also a large backlog of high cost bridges, the discretionary portion of the program is being increased from $200 to $250 million per year.

I believe that the block grant is one of the most important aspects of this proposal. The current Federal transportation infrastructure in many urban and suburban areas bears no relation to the infrastructure necessary to attain the mobility needs. Under our bill, State and local governments will be able to make basic decisions on transportation needs, rather than choosing projects in order to maximize the availability of Federal funding.

Rather than chasing after every pot of money to make certain they get every cent that is coming their way, they can set the priorities based on what is truly needed in that area.

The bill would replace the current Federal urban system and the secondary system, the nonprimary system portion of the bridge program, and the UMTA formula program with the block grant. The UMTA discretionary grant program would be discontinued.

The program would have an urban mobility component and a State component. Under the urban mobility component, funds would be allocated to large urbanized areas for either highway or transit projects. Under the State component, funds could be applied to either transit or highway projects.

A State could choose to use funds from the State component in rural and small urbanized areas for transit operating assistance. That is for communities under 200,000. The program would be authorized at a level of $3.3 billion per year, which is equivalent to the sum of the fiscal year 1986 program levels for highway programs that are incorporated plus $1.1 billion from the mass transit account.

The fund would be distributed to the Governor of each State by a formula that incorporates existing formulas for the programs being consolidated. Each State would receive approximately the total amount of funds it received under the current Federal highway programs plus an amount of UMTA funds that would be based on the current section 9A and section 18 formulas.

The funds would be fungible, that is, they could be spent on either highway or transit projects. To continue the consideration now being given to urbanized areas of 200,000 or more population, provisions are included to require that the portion of the Federal highway and UMTA funds attributable to these urbanized areas be allocated by the State to these areas.

In order to provide continued funding of the program, provisions are included to extend both the user fees and the highway trust fund for 4 years, through 1992. The current exemptions for gasohol, methanol, and ethanol significantly reduce the revenues going into the highway trust fund. Since vehicles using these exempt fuels do the same amount of damage to our highways as vehicles using nonexempt fuels, we believe these exemptions are inappropriate and contrary to the user fee principle.

Similarly, the administration believes that the current gasoline, diesel, and tire tax exemptions for public and private revenue bus operations should also be eliminated.

The goal of these changes is to charge the actual users of the highway system for the damage that they cause. By closing these loopholes, we estimate additional annual revenues to the Highway Trust Fund of $720 million by 1990.

The bill proposes to fund motor carrier safety grant assistance to States at an annual level of $50 million, that is a 150 percent increase over the current levels. Equally important, I am asking that these funds be available on a contract authority basis. This will give MCSAP added stability by assuring multiyear funding, providing States with the certainty they need for long-term planning and hiring.

Other provisions which are included in our proposal are continuation of the interstate substitution program at reduced levels over an extended period of time; modifications to the highway beautification program, which lower the costs and enhance its effectiveness; revisions to toll road statutes which permit toll financing for the construction of new toll roads, or the reconstruction of the existing toll facilities; and continuation of separate railway/highway crossings and hazard elimination programs.

This legislation does not contain any amendment to the current program for disadvantaged business enterprises contained in section 105(f) of the Surface Transportation Assistance Act of 1982. We are looking forward to working with the committee to address this provision during the development of reauthorization legislation. We anticipate working this out with the committee, and that has yet to be finalized.

In conclusion, there is no question that this legislation is a bold initiative. It makes tough choices, and we believe the right choices, for maintaining the proper Federal role in the Federal-aid highway system.

Let me just add, Mr. Chairman, in closing, with these deficits that confront us, and the crucial task that we have ahead of us in the Congress and the administration of getting the deficits down, cutting Federal spending, assuring the continuation of the economic expansion of this country, all sectors of our economy, all aspects, must contribute.

I worked long and hard on the transportation aspect of the budget because I do believe that we must contribute to the deficit reduction. We simply cannot continue to do everything that we have been doing in the past. We are very much in the red ink. We are going to have to change priorities, and now is the time. Whatever we think of Gramm-Rudman, it certainly does impose discipline. It forces us to get down to business on making the tough choices, coming to grips with problems, so that we can ensure, hopefully, we never reach that across-the-board automatic reduction stage in fiscal year 1987, which I think would be disastrous.

This budget is aimed to making its contribution to reaching that $144 billion level in fiscal year 1987 so that we do not reach that disastrous across-the-board stage.

I appreciate the opportunity to work with this committee, to look at the reauthorization bill, to try to plan for the future, and to keep in mind the importance of getting those deficits down, and what that means to our overall economy and to all of our services.

Thank you, Mr. Chairman.

Senator STAFFORD. Thank you very much, Madam Secretary.

You mentioned Gramm-Rudman. I understand now that Gramm-Rudman may be saying that it was all Fritz Hollings' idea, and Fritz Hollings is considering pleading temporary insanity.

I understand that your two colleagues are here with you to answer questions, and do not have opening statements. Am I correct in that?

Secretary DOLE. Yes.

Senator STAFFORD. Mr. Barnhart and I have appeared together several times recently. If you had a statement, it might be the beginning of another Bob and Ray show of some kind. You have to be rather old to understand the meaning of that, I guess.

What I would suggest to my colleagues, if it is agreeable, is that we start the first round with 10 minutes each. Is that agreeable?

According to custom in the committee, we will go in the order in which we appeared here this morning. So I will begin, Madam Secretary. I would like first to refer to section 137 of the administration's bill. This is the bill that directs the sale of Union Station here in Washington.

I think that it is no secret that this Senator as an individual opposes the sale of Union Station, and I should point out that this committee, on many occasions in the past, has stated in clearest of terms that Union Station should remain in Federal ownership.

My question is, are you aware of these views on the part of the committee?

Secretary **Dole**. Yes, Mr. Chairman. In fact, I would like to, as we have done periodically in the past, sit down and review the specifics of where we are on Union Station, and work with you in that respect. Of course, this provision would provide the authority to move forward with a sale, at some point down the road.

I appreciate your views on this, and certainly look forward to working with you. This is not something that is imminent, but we do ask for the authority for some future point.

Senator **Stafford**. We are all a little parochial, and I note that your bill, as I commented in my opening statement, eliminates the minimum one-half of 1 percent for interstate construction category.

My question is, why should the States that did a good job in finishing their interstate in a timely and cost-effective way be penalized now, and prevented from participating in this category?

For example, both Senator Burdick's State and mine literally beggared themselves to complete the interstate, and in the process we neglected our primary and secondary roads to get the interstate done.

We feel that it would be unfair now to deprive these States of the one-half of 1 percent minimum, while other States, which were tardy in the process, are still in interstate construction phase. I suspect that this committee will want to keep the one-half of 1 percent minimum.

Secretary **Dole**. Well, Mr. Chairman, again, of course, we are in a period where we have a major overall initiative, which is to cut our budgets to the point that we can bring these deficits down and assure economic expansion, that inflation continues to be low, and that we get interest rates down.

It seems that the one-half of 1 percent, for those States that have already completed their work, was an item that could be eliminated. This is a major public works aspect designed for a certain purpose. Those States have completed that purpose. The money remaining is the cost of completion. The fund will be lower in terms of being reduced in this particular reauthorization legislation.

The idea is that with the need to reduce the deficit, the work is done for which that project was intended. It really seems to make sense to try to save some funding now. Obviously, completing the interstate overall is to the advantage of every State, from a defense standpoint, from the standpoint of facilitating interstate commerce.

So there is certainly a benefit to those States that pay into the fund.

To provide that one-half of 1 percent, at this time, with the kinds of challenges that we face, did not seem to be the appropriate way to go in the future.

Senator ABDNOR. Would the chairman yield?

Senator STAFFORD. I would be glad to yield 1 minute of my time.

Senator ABDNOR. Madam Secretary, do you think that there is any problem to those of us who have done what they were asked to do 20 years ago and longer, and now have their highways deteriorating because of the traffic using these roads for those 20 years or so?

Secretary DOLE. Well, of course, with our 4R Program, all of it has been figured in in terms of what we feel is necessary to take care of the critical needs of this Nation. All of that is a part of the way this plan has been developed.

The 4R Program level is actually increased in this budget, as is the primary funding. It is the interstate construction that is cut back. Of course, there is only 3 percent that is not completed at this point. It is about 1,300 miles, I believe.

I am getting a little off of your question here, but in terms of going ahead to complete those sections, most of them are already underway. I think there is a real incentive in the completion of the interstate. There is a real incentive to go forward because there is a higher Federal contribution on those, and most of the work is already underway. These various categories of funding are available across the program so that more money can be utilized for interstate construction or for 4R from other categories of funding. That is one of the advantages of this proposal, it does provide a lot of flexibility, not only between funding within the interstate primary program, but also the block grant money could be utilized for 4R, for example. So there is a lot of flexibility.

Senator STAFFORD. I have one more question.

At the present time, Madam Secretary, it has been suggested that permitting the use of Federal-aid funds on toll roads is double taxation. What is your response to those who make that suggestion?

Secretary DOLE. We feel that it would be appropriate to build new toll roads and to utilize Federal funding. As far as those that were completed in the past with Federal funds, we would not allow tolls to be put on existing free routes.

If a road has not been opened to traffic yet, then this legislation would approve the use of tolls. But looking to the future, yes, that is something that would provide additional sources of funding, so we are changing the policy in that respect. It is optional at the State level.

Senator STAFFORD. Thank you very much.

Senator Lautenberg.

Senator LAUTENBERG. Thank you, Mr. Chairman.

Madam Secretary, what amount of funding for mass transit from the highway trust fund did you recommend to OMB in your original budget submission for fiscal year 1987?

Secretary DOLE. I believe that it was $1.4.

Senator LAUTENBERG. I thought that it was $1.6.

Secretary DOLE. It was $1.6, you are right.

Senator LAUTENBERG. This is the first time, in any exchange we have had, that I have been right.

When you recommend $1.6, you are confirming that there is a use for those funds, I assume.

Secretary DOLE. That was, of course, the earlier recommendation, and it was prior to Gramm-Rudman.

Senator LAUTENBERG. Right. I assume that if you recommended $1.6 that you felt it could be used, regardless of the Gramm-Rudman considerations.

Secretary DOLE. Yes.

Senator LAUTENBERG. OMB came back with $1.2. They objected apparently to the use of interest as they have with the highway trust Trust Fund itself

Secretary DOLE. Yes.

Senator LAUTENBERG. Certainly that is a matter for debate. If we look at testimony that was given some years ago, it was 1984 testimony from the House Committee on Public Works and Transportation, it was agreed at that time that interest would be part of the account. I think that that has always been the belief, has it not, that interest would be available?

Mr. STANLEY. Yes.

Senator LAUTENBERG. Why is OMB cutting that account if the funds are available, the dedicated one-half of 1 percent?

Mr. STANLEY. We are first of all, in terms of the mass transit account, new to the trust fund concept that the committee has used for highway funding in the past.

There seems to be a general impression that the interest earned on the 1 cent that we collect is somehow off-budget in terms of the overall Federal Government. It is merely an intergovernmental transfer. The interest is paid by the Treasury for the use of the funds to meet current obligations.

I think, in an effort to reduce overall Federal spending, the concept that we would be spending interest was one that, in coordination with OMB, we determined the Federal Government could not afford at this time.

I would also point out that in the operation of our trust fund, the delay in disbursing the dollars collected at the Treasury for the purposes of mass transit is often the result of a delay in local match being obtained. In essence, what you end up with is the Federal Government paying a premium, in terms of the interest being earned on the account, due to the delay in the funds leaving the Treasury.

To cite one example of a grant in New York, that I have come upon in the last year. It was a grant made in 1979 to rehabilitate a subway station. None of the funds had been drawn down until the summer of 1985. If this grant had been from a trust fund during all of the time that it was in the trust fund, it would have earned interest. Again, the simple matter is that we can not afford to spend the interest at this time.

Senator LAUTENBERG. You have agreed that the funds can be used, which is confirmed by the budget request, and the funding is there. I will tell you that I don't understand why we don't go ahead and authorize those funds and, subsequently, appropriate them for that purpose.

Secretary **Dole**. Senator Lautenberg, let me just make one comment on that.

I know that there are a number of things that have already been stated this morning where we will have to work through it together, where we don't necessarily see eye-to-eye.

With regard to the use of interest, and the use of balances in trust funds, some of you feel that there should be an off-budget provision, that all the money should be used that is in the trust fund right now.

Our reauthorization proposal provides for deficit neutrality. In other words, everything that does come in in the years to come will be expended. It is the balance or the interest that we are talking about. It just seems to me, when we have a national goal, when we have the necessity that we have before us of trying to get these deficits down, that whether or not the funding comes from a particular source and is earmarked for a particular use, nevertheless there is a need overall to determine the impact of Federal spending on the economy from a unified standpoint. There is a need for all taxpayers, in whatever capacity, to contribute to this effort, because all taxpayers, in whatever capacity, will benefit by continued low inflation, bringing down interest rates, and the other benefits that we are trying to achieve.

I think there is a real argument for saying, these funds are going to be expended ultimately for the purpose intended, but we do have a major challenge in front of us now. Whatever trust fund we are talking about, there is a strong argument——

Senator **Lautenberg**. I don't like your OMB hat, you know that.

We are talking about a 66-percent cut in mass transit, based on your recommendation. We are under Gramm-Rudman abandoning the opportunity to choose priorities. The President has chosen to override that by his budget submission, establishing the priorities that he thinks are essential, and we, here, have not only the obligation, but I think the opportunity to challenge the decision on priorities.

When we look at mass transit, and we see how much assistance is going to be given there, and the role it plays in the urban centers, despite the fact that for a moment in time the rural population is growing a little bit faster, we in the urban centers have the much more serious problem of not having the option of laying out new highways, and things of that nature, and we have to accommodate the commuting public, as well as the vehicle passenger, and it is a mess.

So if we have to choose between one or the other, as proposed in your urban morbidity block grant proposal—Mr. Barnhart flinched when I said that.

Secretary **Dole**. Senator Lautenberg, the State and local budgets, though, right now reflect less than 1 percent for mass transit. I am just saying, I think there are some other ways of doing it, such as looking at the opportunity for contracting out, rather than Uncle Sam footing the bill each time.

In some instances, like operating subsidies, I truly believe that for the Federal Government to be paying the bill, whereas the decisions are being made at the local level on labor issues, on what to do about service, on rates, and all the rest, separating the decisionmaking and the payment of the bills is not efficient. It does not produce the efficiencies in the system that we so desperately need at this point.

I think in every area, we have to look at how might it be done more efficiently to save some money now. We are down to the point of tough decisions. When you look at some of the things that happened, I think we ought to sit down and work through it to see if there isn't a better way.

Senator **Lautenberg**. We know that there is no such thing as a free ride, to use an old expression. It is paid for, one way or the other, either through a dedicated tax for general revenues or the fare box. The fare box is really going to take a big chunk out of, principally, the working person's salary. Going back and forth to work, as you know, is an enormous problem.

Ralph Stanley comes from New Jersey, and he knows that in a densely populated State like ours, and our neighboring State, that without a substantially improved mass transit system, we stultify economic opportunities, and often remove working chances for those who can't afford to get into their car.

Secretary **Dole**. Some of the incentives, the way it is constructed now, they just run the wrong way. For example, at a point when a community has to decide, are we going to refurbish a bus, or are we going to buy a new one, and there is a 20-percent contribution required of that community for the purchase of a new bus, and 80 percent is paid for by Uncle Sam, whereas refurbishing might be 100 percent locally funded. At this time in the United States, half of the systems in the United States, half of them, at peak hour, have over 70 percent more buses than they need.

This is the kind of thing that causes me to become frustrated, to feel like, now is the time to really get down to grips and make some changes, to get this kind of negative incentive out of the system, and alter it in terms of the next 4 years so that we really are more efficient in what we are doing.

Senator **Lautenberg**. My time is up.

Senator **Stafford**. Thank you, Senator Lautenberg. There will be a second round if Senators have more questions. We won't stop with the first round.

Next, the chairman of our subcommittee, Senator Symms.

Senator **Symms**. Thank you very much, Mr. Chairman.

I want to thank you again, Elizabeth, for an excellent statement, and say, generally, I am very sympathetic with some of the ideas on block grants, and I will want to work with you, Ray, specifically on how to put that together so that it will work well out in the States. We need to get the money out there to build the roads that are needed.

I have a lot of questions, and we may submit some of them in writing.

Mr. Stanley, I did want to ask you one, and one to Ray, and then I will try to reserve the rest of my time because I have to be on the floor at noon, and I am getting a little nervous about that.

Regarding the 1984–86 new starts, the $521 million that the administration has proposed for rescission, are there any reasons why these projects are not good transportation investments over and above the budgetary concerns that you have expressed?

I have said that we were going to end up with a lot of tunnels around the country, where we will get in at one end, but they don't go anywhere.

I am very concerned about that. I am concerned that we will start too many projects. Would you want to comment on that very briefly?

Mr. STANLEY. I was here, too, when we passed the 1 cent trust fund. If anything has taken the trust out of the trust fund as far as mass transit is concerned, it is what we spent the money on since we established the fund.

The administration has proposed $521 million of funds for the so-called new start projects be rescinded. The first year, I attempted to have some criteria to allocate those funds. The second year, the Congress continued to earmark the use of the funds. If those projects are allowed to continue and those funds are spent on projects such as the one in Los Angeles, it is very clear to me that the trust fund for mass transit will clearly be inadequate to fund the projects without taking money from older cities like New York, Philadelphia, Boston, or we will have to raise the gas tax 2 to 3 cents merely to complete the projects I have been ordered to start.

Senator SYMMS. I understand the Appropriations Committee has directed you to enter into full-funding contracts.

Mr. STANLEY. I am in the process of attempting to negotiate full-funding contracts with three of the cities, three of the major projects. The irony in the negotiations, and the stumbling block in the issue, is that there is simply not enough local money to finish either the segment, or the complete project I have been ordered to start.

My question for 2 years has been, if the Congress is eager to order us to start the projects, where will the funds come from to finish them? If those projects are started, and if those funds to finish the projects are not identified right now, the two areas they will come from are another penny or two from the trust fund and, second, from the funds that have been set aside for the old rail cities such as New York. It is going to be very difficult, if not impossible, to stop a project in a city like Los Angeles once Wilshire Boulevard has been completely dug up.

I would appreciate the guidance of the committee, as I negotiate the contracts, but it is more than just the detail issue in each of those three cities.

Senator SYMMS. Thank you.

Mr. Barnhart, a lot of the questions I have, I think, I will either submit them to you, or call you on the telephone and just discuss them with you. I would like to ask you one question, and that is, how much money in the Federal-Aid Highway Program would be saved, point one, if there were no Davis-Bacon law and, point two, do you have any reform recommendations that we might modify this, so that we could meet a political compromise on that?

I purposely didn't ask the Secretary that question. I think you are one notch further away.

Mr. BARNHART. Well, I think, Senator, you know how I feel about Davis-Bacon and its inequity around the country. At the present time, we have to pay the highest of the Federal or the State Davis-Bacon wage rate. Since about 25 percent of all of our program is in labor, that does have a significant impact on the amount of dollars that go into highway projects.

I, frankly, do not think that repeal of Davis-Bacon could be accomplished.

Senator SYMMS. I didn't say that. I agree with that. I am only asking, how much would it save?

Mr. BARNHART. How much would it save? It is very difficult to put a figure on it precisely because we have 34 States and the District of Columbia that have their own Davis-Bacon Act. So you have to consider that even if there was not a Federal Davis-Bacon, you would still have the State Davis-Bacon. However, if you didn't have that, I suspect that it would be approximately one-half billion dollars a year.

Senator SYMMS. Out of the $14 billion, that is pretty big dollars.

Mr. BARNHART. So it seems to me.

Senator SYMMS. Do you think that there are any reforms that you might be able to come up with that we might be able to get through this committee, or a bipartisan agreement that we do need to do everything we can. If you have any suggestions on that, I would appreciate it.

Mr. BARNHART. Senator, we are working on something that we think might be realistic, perhaps a trigger level. It is a very touchy thing, let's face it. We have to be realistic about what can be accomplished. We have a hill or two to climb with our bill, period, without getting into these other areas.

Senator SYMMS. On another subject, the bill provides $1.6 billion approximately for the interstate/primary program. Can we really complete the interstate by 1990, or are you anticipating the date will come when Congress will declare a victory, and we will stop any new construction?

Mr. BARNHART. In one sense, I really can't answer that because we are granting flexibility to the States so that they can use some of their other funds, to complete their portions of the interstate.

So while we have calculated $6.4 billion over the 4 years to go into the actual interstate construction as a part of the formula, the remaining funds out of that I 4R/primary pot could also be used on those same gaps. It would be a State call as to whether or not their portion of the interstate could be completed.

I have felt for some months that there is nothing sacred about a line on a map drawn 30 years ago. I have personally felt that perhaps we should redefine what completion is, but that, too, is politically dangerous because every State looks at its 10 cent dollar and says that they have an entitlement on this particular leg.

By treating the subject the way we have in this combined pot, we let the States share the glory in defining what should be done. They can target their funds to suit these projects that are worthwhile and necessary for the system.

Senator SYMMS. Thank you very much.

I want to say again, I do appreciate the work that you are doing, Madam Secretary, and your two very able Administrators. For me, I personally appreciate working with you. We don't agree on everything, but I want to say, as chairman of the subcommittee, I am willing to try to work this out. We have our own political considerations. I happen to agree with Jim Abdnor and Quentin Burdick on the half-percent point, and I think the votes probably are here, on this committee anyway, to preserve some of those things that we consider to be important and equitable in that respect.

We are trying to work with the other States, with the 85 percent minimum, and some of those areas that I know have caused some consternation. It will be our goal here to try to work out a fair and equitable bill, and try to really expand federalism, if you will, to where we can maximize State decisionmaking, and keep us from making too many specific decisions. That is, of course, one of the reasons that I differ with DOT on these issues, where we try to tell them what they have to do with respect to speed limits, or other social causes in terms of whether they can get their money or not. I will resist those efforts as long as I can.

Thank you, Mr. Chairman.

Senator **Stafford**. Thank you very much, Senator Symms.

Next will be Senator Abdnor.

Senator **Abdnor**. Thank you, Mr. Chairman.

I will continue on where Senator Symms left off. I understand that we are giving greater flexibility and latitude to the States to make decisions by putting these funds together.

Secretary **Dole**. That is right.

Senator **Abdnor**. Isn't that part of what our problem was a long time ago, and why we are still horsing around trying to build the interstate after almost 30 years, it started when President Eisenhower came into office.

Some States took their time about building it, and now it costs approximately 500 percent more to build. They took advantage of it. They put it where they wanted to. They built other kinds of roads, and they always knew that they could come back and call on these other funds.

I don't know whether that is good policy or not. The intent in those days was to get those roads built, to get an interstate system. It is fine to let the States have their choice on it, but some of them went ahead and did what was asked of them, to get these roads constructed. It seems to me that with these kinds of proposals, we may be doing more harm to the States that are trying to do the right thing.

Secretary **Dole**. I think, as far as the completion of the interstate, the incentives are really there for completion, and for several reasons. One is, a lot of the work is already underway. There is certainly the flexibility to be able to add additional funds from other sources to complete it immediately. The Federal contribution is 90 percent rather than 75 percent as it is on the primaries.

We feel that the work will certainly go forward on the interstate.

Senator **Abdnor**. That isn't exactly my point, Madam Secretary. They took their time always knowing that they could get the money down the road, regardless that they had to build those interstates some day, why not do these other things first while it is still there.

I can see where it would be very advantageous to States to do that, but, on the other hand, things ought to proceed as they were planned. The understanding was, when the gas tax went in, that they would be built.

I just wonder, on this incentive business, if it may be very harmful to States that started early and did what was asked of them. We always knew that the big end of this thing was going to be to try to keep these interstate highways in decent shape after 25 or 20 years that some of these have been open.

It is happening, and it is a lot more expensive to try to repair them now, it is almost like trying to rebuild them, or build them all over again.

What do you plan to do, if it is for the States to make the determination, and they want to put all of their money into repairing interstates?

Mr. **Barnhart**. Senator, I do not think we have irresponsible entities out there in the State highway departments. Most of them have accountability to their constituencies. Regarding the completion of the interstate, we have completed 97 percent of it without the firm direction of the Federal Government. The States have completed that on their own by choice.

Senator **Abdnor**. Wasn't that the purpose of it?

Mr. **Barnhart**. Because of the economy, South Dakota has benefitted very much by our present structure. South Dakota has received $2.01 back for each dollar.

Senator **Abdnor**. I won't argue that. We wouldn't have had any roads if we hadn't.

Mr. **Barnhart**. That is correct. As a Texan, I have always applauded that because it is important to us that you have an adequate system of highways, and you don't have a tax base to support it.

Senator **Abdnor**. That is very beneficial to South Dakota, I will grant you. But let me tell you, it isn't bad for the United States as a whole in trying to get from one coast to the other, if you see the cars going up and down that highway.

Mr. **Barnhart**. That is precisely the point, and that is why we have never begrudged that redistribution, Senator.

I think the States will act responsibly. I think we have documented in past years that for the most part, certainly we have some standards that they have to adhere to, and we have some requirements about maintenance. I don't think that the system is going to fall apart.

Senator **Abdnor**. I hope not.

Mr. **Barnhart**. I think our level of program is sufficient to maintain that quality that we are now getting back into the system from the 1982 act. We are taking care of the business of the deterioration problem from years past, when we had no rehabilitation of the roads. We didn't used to have a category for it. You all created the 4R Program precisely in response to the need to keep the system in good working condition. I think that the wisdom of what you all did is right out there on the roads today.

Senator **Abdnor**. I will take a look at it and see how it all fits into the picture.

Let me jump to another subject. In the combining of funds, how does that effect mass transit? Do they have the latitude of being able to make choices?

Secretary **Dole**. That is right. The mass transit block grant would be $1.1 billion, and then the urban secondary and non-Federal bridge contribution, all three at about the same level as exists now. That would be combined and it would equal $3.3 billion. It can be used however the States choose.

Senator **Abdnor**. Do you think that our gasoline consumers are going to be happy about that? We had quite a fight in convincing them that they ought to let 1 percent go into the mass transit.

Secretary **Dole**. This is the same penny that would be the formula.

Senator **Abdnor**. One last question, let's talk about highway beautification for a minute. How does this work in your proposal?

Secretary **Dole**. Our highway beautification proposal would change the program in that it would focus on the rural roads, the rural interstates and primary routes. It would hopefully make it a system that works more appropriately, and the States would be permitted amortization. They would also be permitted, for example, to pay just compensation out of the trust fund. It would be an eligible item under the interstate/primary program.

It is designed to try to eliminate some of the complexity and basically to focus on the rural areas where land use control is at its weakest, and also where the aesthetic aspect is most important.

Senator **Abdnor**. We are going to put more emphasis on the rural, and less on the more urban; is that what we are saying?

Secretary **Dole**. The program is confined to rural interstate and primary systems under our new legislation.

Mr. **Barnhart**. Senator, I believe that what is proposed would pretty well tie in with what your goals have been, except perhaps for the 5-year timeframe. We will be happy to get with your staff on that. We have done some extensive work on this.

Senator **Abdnor**. As you know, this has been quite a controversial subject in a State like mine, taking down more highway signs than anyone else. If you take a trip down the the east coast, I have never seen so many signs in my life, and they are all eligible. I have never seen such a jungle of signs, and they say that it fits the bill.

I am just wondering if we aren't putting our emphasis on the wrong place, sometimes. You can look at those cities, and know what they have. When you come to my State, and you have some bad weather, you welcome a sign to see where in the devil you are going and where the next place is. You don't have to worry about it when you are going down the east coast looking for places.

So I wouldn't put too much emphasis on the rural unless it is going to give them some kind of break, because some of them have been battling this problem for quite some time.

Thank you, Mr. Chairman.

Senator **Stafford**. Thank you, Senator Abdnor.

Senator Burdick.

Senator **Burdick**. Thank you, Mr. Chairman.

I direct this either to the Administrator or to the Secretary, either one. I support the need to reduce the Federal deficits, however, I am against reduction in highway spending. In fact, I have taken every opportunity to oppose further cuts in the obligation limitation ceiling.

It is my understanding that your bill places the authorization level at or near the obligation limitation. Based on established road needs, can this country afford further reductions in actual spending?

Secretary DOLE. Based on the rural needs?

Senator BURDICK. The Nation's needs. I was thinking about the rural needs, but the Nation's needs?

Secretary DOLE. We have planned this, of course, looking to the future and what we think the critical needs are, Senator Burdick. We feel that this does address those critical needs. Each category reflects careful thought in that respect. You will notice that the primary bridges, for example, are a separate category. There are very distinct reasons for that.

We feel, all the way through, that this reflects needs and, most appropriately, gives flexibility to the States and to localities to make decisions based on their immediate situation and their firsthand knowledge of what is going to be best in the interest of their traveling public.

I think the flexibility is important. Overall, we feel that our proposal does meet needs, and has carefully been constructed as a vision for the future, for the next 4 years.

Senator BURDICK. We will have to watch the testimony that develops. Your contention is that you are meeting the needs today?

Secretary DOLE. Yes; for example, if you take the block grant, what it does is to enable a community to decide what its priorities are, rather than just trying to go after whatever money might be available in whatever category. It provides incentives for planning, in an integrated way, looking at highways, mass transit, what is going to be best for that community, and what are the needs of that particular locality. Then the community has the flexibility to have funding for that need, rather than going in different directions just to make sure that everything that is deserved is coming to the community.

Senator BURDICK. I realize that there are some advantages to block grants, but I have also seen some programs where block grants reduced the overall spending in various areas. So we will have to see what it looks like.

Secretary DOLE. The transit area, that is right, has been reduced in the block grant.

Senator BURDICK. Many highway users would like to see the self-funded highway trust fund moved from the unified budget in order to insulate it from further cuts. Would the administration support this effort to remove the fund from the unified budget?

Secretary DOLE. No, Senator Burdick. The administration's position is that the trust fund should stay on budget. In other words, it should be unified because, in order to determine what impact on the economy is of total Federal spending, you need this unified approach.

I feel that, in an era when it is so important to reduce our deficits, all sources of funding, all taxes, whether it is designated for a particular purpose, or earmarked for a particular purpose or not, should contribute to that effort because all of us are going to benefit from keeping inflation low, and ensuring that interest rates will come down, and economic expansion continues.

The money, of course, is ultimately used for the purposes intended. Senator Symms indicated he had a visit with the President. I don't know in what context or exactly what was said there. Certainly, the administration's position has been and remains that we do not favor going off-budget with the trust fund.

Senator **Burdick**. Don't you think that there is some merit to setting aside the money that the highway users are responsible for, and not make it a part of the general budget?

Secretary **Dole**. Of course, ultimately, these funds are used for that purpose. They are not used for any other purpose. The reauthorization bill reflects deficit neutrality, which means that everything that comes in will be expended in the following 4 years. But not as far as any balance or interest is concerned. As I mentioned, those who contribute to the trust fund should also contribute to the deficit effort. I do not have a problem with that.

The benefits that we are trying to achieve from deficit reduction are going to impact the people who put in the funds in that particular category, as well as all general taxpayers.

Senator **Burdick**. The trouble I have is that here you have a program that takes care of itself. It does not rely upon taxes, or anything else, except the road taxes. It supports itself, and I don't know why we have to treat that the same as we do other expenditures. We don't quite see eye to eye on that one, I guess.

Secretary **Dole**. I guess that this is one where we will have to agree to disagree.

The annual receipts and disbursements from the trust fund certainly figure in the Federal budget deficit just as surely as receipts and disbursements from the general fund. They help to determine the amount of money that the Federal Government is going to have to borrow each year from the private sector. In that way, they have an impact on the national economy.

I think that this is an area, perhaps, where we will have to agree to disagree.

Senator **Burdick**. The highway trust fund generates $1.2 billion in interest every year. The authorization that was set by the administration bill does not include the interest income. The general consensus is that this is unfair. Are you aware of any OMB plans to utilize this interest income from the dedicated accounts to reduce the national deficit?

Secretary **Dole**. The same as I have already said applies.

Senator **Burdick**. The interest from the trust fund, why is that treated differently than other funds?

Secretary **Dole**. I am sorry.

Senator **Burdick**. Why should interest from the trust fund be treated differently from other funds? This trust fund earns money, you know.

Secretary **Dole**. Yes; the general taxpayers are contributing.

Senator **Burdick**. Why shouldn't that be treated like any other money in that trust fund?

Secretary **Dole**. Once again, I am applying the arguments that I just made to the balance, to the interest. It is an intergovernmental transfer, which we simply feel, in light of the deficits, that we cannot afford at this time. Congress has said, with Gramm-Rudman, that it is time to get down to serious business about this.

We are going to have to reach $144 billion level for fiscal year 1987, and then on forward until we reach zero. How are we going to come to grips with this if we don't start making some hard choices here?

It just seems to me that you are going to have deficit neutrality for the next 4 years with regard to funds that will be coming in. The arguments that I have just made about those who contributed also benefiting from deficit reduction, I really just have no problem at all saying that, whether it is earmarked or not, it does count, and the interest counts. I think that this is a proper contribution in the deficit reduction effort. The interest will ultimately be used for the purpose that it is intended.

Mr. **Barnhart**. Senator, if I might, as the highway advocate, I think that we probably share many similar thoughts and attitudes about the trust fund, and the integrity of it, and the taxpayers who contribute to that trust fund. At the same time, this whole business is one of choices. We have made some very difficult choices, which we think truly are in the national interest.

I feel that as the Federal Highway Administrator, I have never waivered in my support of the Federal highway program because I think that it is fundamental to this economy. At the same time, I can quite comfortably accept the $12.8 billion level program because I think we can meet our current needs for the next couple of years.

One thing you will note, a few months ago, we were talking about an 8-year bill. We are talking about a 4-year bill now precisely because of the level of $12.8 billion.

If all the rest of Government will meet the challenge as has the Department of Transportation, in 4 years, we ought to have this deficit under control, and then we can go back to funding at the full level that we feel the trust fund can support.

If the argument is the level of the program, that is one thing, but then I would plead with you to examine the principle of what we are trying to propose in here, regardless of the level of funding. See if you really don't agree that how we are trying to approach this makes good prudent sense.

Senator **Burdick**. Apparently, my time is up.

Mr. **Barnhart**. I thought I would filibuster you out of that, you see.

Senator **Stafford**. It is my understanding, and I just want to make sure that we all understand this correctly, that interest on the highway trust fund is being retained in the highway trust fund account, and it is not being turned over to general funds.

Secretary **Dole**. That is correct.

Senator **Stafford**. It is being retained there, and at the appropriate time, whoever is in charge of that, it will be expended for highway purposes.

Secretary **Dole**. Absolutely.

Senator **Stafford**. It will not be diverted. I think that this might comfort us somewhat.

Senator Moynihan, I guess you are next.

Senator **Moynihan**. Mr. Chairman, just to run down a few things. First of all, to the interest that you have expressed and the committee's view on the sale of Union Station. Madam Secretary, we feel that that is pretty special property over there, and I entirely support the chairman.

On the interest in the trust fund, let me just say, by way of congratulations, last October and November, the Secretary of the Treasury cashed in 22 billion dollars' worth of Social Security bonds to pay for the general cost of Government, and didn't tell anybody. The Comptroller General said that it was totally illegal, but what are you going to do, you can't very well arrest the Secretary of the Treasury.

We thank you for telling us. It would have been very unseemly not to have done so.

There is the proposition that in some vague way that the interest paid on these bonds means that the general taxpayers are contributing. This is not something that we are going to settle, and I won't raise.

Secretary DOLE. I am sorry, Senator Moynihan, I didn't hear what you said.

Senator MOYNIHAN. We are not going to settle the proposition that somehow the general taxpayers are contributing when the Government borrows money and pays interest. That is beyond the kind of thing that gets settled in an exchange of this kind.

Mr. Barnhart, we hold you in very high regard and properly so. I would be very distressed that you really believe that this administration is ever going to get rid of these deficits. The deficits were deliberately created in order to create a crisis in Government, and the crisis has gone on for 5 years, and will go on for as long as this administration is here. William F. Buckley had a wonderful phrase, he called it "boob bait for conservatives."

They do dearly love to say, "Don't you worry, we hate these things, which we have created, and we really didn't want to do this, but Harry S. Truman made us." They are not going to get rid of this crisis, not until the day you leave this office, which I hope is not for a long time.

Could I ask you about the fiber optics?

I am very serious. You can't deal with generalities. We built that thruway. We designed it. We paid for it, and we own it. Are you going to let us run a fiber optic cable along the length of it?

Secretary DOLE. Let me just say something first.

You and I discussed this, and what I said at the time, and I certainly still stand by that, is that I would be happy to look into this.

I have asked the Federal Highway Administration to do exactly that. There is a policy from the 1950s', AASHTO-DOT, I believe——

Senator MOYNIHAN. We wrote that policy. Who do you think designed the system.

Secretary DOLE. That policy deals with safety. It deals with access questions, the defense needs of the right-of-way.

Senator MOYNIHAN. Those are our policies.

Secretary DOLE. It has to be looked at. You can't just say, "fine, go do it." Let's look at what the reasons were for that, and determine if it is feasible, and that is exactly what is happening. I think that we discussed this less than 2 months ago.

Senator MOYNIHAN. Yes.

Secretary DOLE. That is not a lot of time that has passed, and the review is underway.

Senator MOYNIHAN. When are we going to get an answer?

Mr. BARNHART. Senator, I am not going to try to match wits with you, I would only be half prepared. But this is not a new issue for us. It did not come up because of the New York concern, I will tell you that quite frankly. Many months ago, we began examining this because the interstate is quite a valuable asset for the Nation.

Senator MOYNIHAN. Yes; and that is why we thought it up in New York.

Mr. BARNHART. Let me say that it was a brilliant idea. We are seriously looking at this. It has many, many ramifications. We are not trying to stall this issue at all, but because of our interest in it, the AASHTO has appointed a special committee to examine the implications of it, and to come up with a report. They have not done so. I think that it would be presumptuous on our part, certainly out of character for us, once we get a committee started, to preempt them on a decision that they have not yet made.

Secretary DOLE. Senator Moynihan, I think that we should meet on this, and we will expedite this. We will do everything possible to move it quickly. I would like to sit down and meet with you on this.

Senator MOYNIHAN. Can we do it?

Secretary DOLE. Yes.

Senator MOYNIHAN. I think perhaps you don't see it from our end. There has been silence. They keep sending letters, there is silence.

Secretary DOLE. I think that we can work out a schedule.

Senator MOYNIHAN. We will sit down and work it out.

Secretary DOLE. Fine.

Senator MOYNIHAN. Let me ask you a question, Mr. Stanley. This was interesting testimony, your plans about fungibility, and mobility and morbidity. What you are basically telling us is that the administration wants to cut the mass transit system by 61 percent. Is that right?

Mr. STANLEY. Yes.

Senator MOYNIHAN. Did you hear that. This is not to be found in the testimony. The administration wants to cut mass transit assistance by 61 percent. Thank you. Yes, he said. Did he say, we will look into it? No, he didn't say, we will look into it.

Mr. STANLEY. We have looked into it, and that was the conclusion. We subsidized it, and we subsidized it, and we looked at what we bought, and we determined that, in the priorities, it could be cut.

Senator MOYNIHAN. You didn't say, we have a committee looking into this, and I will get you the answer. The answer is, yes, you are cutting two-thirds of the program. That is a straightforward and responsible statement of the kind that we associate with you. Obviously, I could wish that it were otherwise, but we might not totally agree.

I kind of wish that it was in the testimony, but that is another matter.

Could I ask again a parochial detail. You spoke of a grant made for a subway station in New York City in 1979, and it was not used, I guess, until 4 or 5 years later.

Mr. STANLEY. Yes.

Senator MOYNIHAN. Would you give me the details so I can ask what went on there?

Mr. STANLEY. After I had a press conference, about 1 month later, they did let the contract. The point I was trying to make concerned the disagreement in the committee and in the Congress about the level of funding from the Federal Government for mass transit.

A lot of great ideas started in New York, including privately built, funded, and operated subway systems. We have attempted to try and integrate the private interests that need mass transit in New York with the public interest responsible for spending the subsidies that we have kept providing.

On that particular grant, I found out, in an effort to integrate the development interests in New York with the funding for some of the subway station improvements, one of them moved in 18 months, at 51st and Lexington. This grant that involved private sector funding contrasted quite significantly from one that had been made in 1979 by a predecessor, three or four administrators ago, at the Grand Central Station. Grand Central Station is probably the most widely used, the most necessary station improvement that had to be made. That grant was for $11.5 million, but nothing had been spent on it.

Senator MOYNIHAN. Please don't use up my very few moments. I would just say, if I can help you, let me know.

Mr. STANLEY. I will do that. I think that the contract has been let. Once I pointed that out in the Daily News, they decided to spend the money.

Senator MOYNIHAN. If I can help you, let me know. If there is something that we ought to be doing that we are not doing, say so, and we will try to do better. We will have to try to do better on one-third of the Federal assistance that we have had. It is all right, I don't mind. This is what the administration came to office to do.

You will remember, in the last election, they promised. if elected, I will cut by two-thirds the assistance given to mass transit system. The President said that all the time, didn't he?

Every time he came to New York, he said: Vote for this ticket, and we will make sure that the subway fares go to $1.25. It will get rid of all the poor people in town, and it will be easier to get around in taxicabs and stretch limousines. The stretch limousine got to him.

Mr. STANLEY. If I could point out one thing that I would encourage working with the committee on, and I have raised this in years before, even if you froze the program at the current level or increased it, I would make the argument before this committee and others. Measuring the program by how much we spend every year, which is a habit we are into in most of these programs, is the wrong way to measure it. If you measure it by what we bought, and you look at the other side of the ledger, at the 63d Street Tunnel, at operating subsidies that haven't reduced the fares in New York.

I would be glad to distribute the operating subsidies that we provided at the Federal level to the people who need and use the system. If you take a look at the way the program is structured, we aren't subsidizing the poor people who are using that system. We are, indeed, subsidizing the commuter that is coming in from Greenwich, CT, more than we are the poor user of that subway system.

Whatever level of funding is decided in this budget debate, this program needs to be looked at from top to bottom, with the question being asked again and again, what are we buying with the subsidies that we are providing.

Senator MOYNIHAN. That is a perfectly fair statement, sir. I think that we could have that kind of hearing. In the meantime, I want to congratulate you on carrying out the administration's campaign promise to cut by two-thirds the mass transit program funding.

Thank you, Mr. Chairman.

Senator STAFFORD. Thank you, Senator Moynihan.

The ranking member of the committee has joined us, Senator Bentsen. We reserved a spot for your opening statement immediately following the chairman's, if you wish it in there.

Senator BENTSEN. I do, Mr. Chairman, and I will go right to the questions.

Madam Secretary, would you tell me why the administration has proposed a $250 million cap on the minimum allocation funds?

Secretary DOLE. Once again, Senator Bentsen, it is an effort overall to take a hard look as we go into a new reauthorization period, as we try to deal with the deficits. Times have changed, circumstances have changed——

Senator BENTSEN. Madam Secretary, we have already taken our cuts with the 4.3 percent, and then you put an additional cut on the donor States that is not on the donee States.

Secretary DOLE. We have also eliminated in this proposal the one-half of 1 percent on interstate construction as well. So it is an effort to look at every aspect and to try to come to grips with the problem. We want to preserve the equity concept. I certainly agree with that. This would overall reduce, I guess, the 85 percent to about 81.5 percent, I believe.

Senator BENTSEN. I settled for 85 percent when we should have had at least 90. Now to further erode it, I just don't see any equity or justice in that.

Secretary DOLE. Again, I think, this is one where we will probably have to agree to disagree. We do see it differently.

Here we are looking to the future. I understand the thinking at the time that this was done for the 1982 act. We are looking ahead now. We are in a different timeframe. We do have some serious problems to address. If there was no cap in the administration's proposal, the minimum apportionment would be $337 million. It would be $87 million less with the cap.

Senator BENTSEN. Madam Secretary, when you cut back on the interstate highway program funds, as you have done, these are the parts of the program that really give us the national character for what we are trying to do. If the decision has been made that the national part of that program is really finished, and has been accomplished, then maybe we ought to take a new look at the user fee system.

Why have donor States contributed to donee States, which are now going to have the option of spending that money in a more provincial way, on the primary, the secondary, urban highways, mass transit projects, at their own discretion. When you step to that new approach, it seems to me that it is time that we had better take a new look at this user fee. I, for one, would be delighted if we took the whole 9 cents and sent it back to the States. Let them have the money that is raised in their States. Do away with the Federal Highway Administration. Let it be done back there. Why not, if we have virtually 97 percent of the interstate finished, and lost the national character of it.

Secretary **Dole**. Obviously, I don't agree with that. I don't think that we have lost the interstate character. There are some very definite Federal responsibilities in terms of defense network, and facilitation of interstate commerce. We are within 1,300 miles of completing the system. There are certainly needs in terms of infrastructure repair, and all of the rest.

We do feel that it is appropriate to have some flexibility, more than exists now, in determining, for example, at the local level, whether or not mass transit or urban highways better suit the needs of the people there.

We do feel, in terms of completing that 3 percent, or spending more money on infrastructure repair, that that is something that is appropriate for a State to decide. There are, as I mentioned earlier, incentives to go ahead and complete the interstate. A lot of that work is underway now.

I think that this is a responsible approach for the future. It does recognize a problem that we have to deal with. We will, I am sure, not agree on everything, but in trying to come to grips, and make a contribution from the transportation standpoint to the overall deficit reduction goals, my first and foremost concern was with the safety aspects, preserving safety across all modes of transportation, which is absolutely essential.

Senator **Bentsen**. Madam Secretary, I appreciate your comments. We are in very strong disagreement.

Secretary **Dole**. Right, we are.

Senator **Bentsen**. May I ask you how much you are talking about cutting over the next 4 years with this approach, what you are talking about on minimum allocation?

Secretary **Dole**. How much the minimum allocation would provide for 4 years?

Senator **Bentsen**. For a total of 4 years.

Secretary **Dole**. It is the same level across each year.

Mr. **Barnhart**. It is 4 constant years.

Senator **Bentsen**. Four constant years, are they?

Mr. **Barnhart**. Yes, sir. We chose that as an average so that we would have some constancy to the program instead of a fluctuation for planning purposes.

Senator **Bentsen**. Under your bill, how many States do you consider will be in the donor status for each of the 4 years?

Mr. **Barnhart**. We have 8, and we had 10 before. It is going to be 8 next year. We will be glad to go over that with you.

Senator Bentsen. So you think you have a majority of us, is that the idea? There are only eight that will be in that capacity?

Mr. Barnhart. In the minimum allocation, yes.

Texas has improved its position in the last 5 years, Senator.

Senator Bentsen. I would say that some of the minimum allocation States may find themselves some allies, if you cut us down to nine.

Mr. Barnhart. The one-half percent States, you mean.

Senator Bentsen. That is what I mean.

Mr. Barnhart. I understand, and yet, you look at them, if you agree, even though you can't accept our $12.8 billion level program, if the one-half percent States plus the minimum allocation, you are talking about a pot of half a billion dollars that would have to come out of somewhere else.

We have tried judiciously to adjust that, ignoring the composition of this committee.

Senator Stafford. You won't be able to for very long.

Mr. Barnhart. We wanted to protect the rehabilitation portion. We did not want to do damage to that consolidated block program because it is near and dear to our heart, and we think that it makes sense.

You tell us where to take that extra one-half billion dollars, we will work with you.

Senator Bentsen. I will tell you that you shouldn't take it from those States that are already receiving less than they are sending in. Obviously, those that are donee States should be sharing in that. We are willing to take our across-the-board cuts like everybody else, but that 85 percent ought to be the floor when it comes from other sources.

Senator Stafford. The Senator has consumed 10 minutes, and we are running into a problem. May I say to my colleagues, there will be a vote, according to information I have just been given, at 12 o'clock on the nomination of the Secretary of Agriculture, which means that we will be dislocated here in about another 20 minutes, and we have another witness yet to go.

I will place such additional questions that I may have in writing, if that is agreeable, Madam Secretary, to you and your colleagues.

Senator Symms. Mr. Chairman, I would encourage that. I will do likewise, because I think we would like to hear from CBO. I know I have two pending amendments on the floor starting at noon, and I know that Senator Bentsen has one. I would hope that we could do that.

Senator Lautenberg. I would like, Mr. Chairman, not to break the harmony, but I would ask if I could ask two quick questions and get two quick answers.

Senator Stafford. You certainly may.

Senator Lautenberg. Madam Secretary, the uniform minimum drinking age bill that you and I worked so hard to get into place, what is your assessment as to how it is working?

Secretary Dole. We have, at this point, 37 States who have passed age 21, and things are looking good for additional States to be added to that list.

Senator Lautenberg. What about lifesaving?

Secretary Dole. There is no question, lives are being saved.

Senator **Lautenberg**. Lives are being saved in that age group. We have been given a percentage of the projected life saving of young people in the ages of 17 to 21.

Secretary **Dole**. The nighttime fatalities definitely are down in the 18- to 20-year age category. I will be happy to supply the statistics for you.

Senator **Lautenberg**. Does 14 to 15 percent sound reasonable to you?

Secretary **Dole**. I need to check that. I know that in some States, it has been higher. I will be glad to get that for you.

Senator **Lautenberg**. Do you favor making that permanent as we have proposed in passing the reconciliation?

Secretary **Dole**. I certainly do. I support you on that, and I look forward to working with you to complete that goal.

Senator **Stafford**. Thank you very much, Senator Lautenberg.

May I say that Vermont, I think, has joined the 21-year age group.

Senator **Lautenberg**. I drove there this week just to celebrate.

Senator **Stafford**. That is good.

Madam Secretary, and your colleagues, let us, on behalf of the committee, thank you very much for being with us this morning. We really appreciate it. I am sure that even though we may disagree, it will be more pleasant than sometimes it is when are agreeing with somebody else in the administration.

Thank you very much, and we will work together.

Secretary **Dole**. We look forward to working with you. Thank you so much.

Senator **Stafford**. The next and last witness will be Mr. Edward C. Gramlich, Deputy Director of the Congressional Budget Office.

Mr. Gramlich, we are very happy to have you here. At this point, we would be very glad to hear your statement. We will place it in the record and invite you to summarize it for us, if you can, since we are now racing the clock.

STATEMENT OF EDWARD C. GRAMLICH, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY RICHARD MUDGE, CHIEF, PUBLIC INVESTMENT UNIT

Mr. **Gramlich**. Thank you, Mr. Chairman.

I would first like to introduce Richard Mudge, who is our highway expert at the Congressional Budget Office. Basically, the rule we have is that if it is an easy question, I will take it, and if it is a hard question, Dick will take it.

I will submit my statement into the record because, obviously, I don't have time to read it. If you are going to be gone in 10 minutes, I don't even have time to summarize it.

Senator **Stafford**. We can probably stay here, even if the rollcall starts at 12, for a total of 15 minutes.

Mr. **Gramlich**. Let me make five points about the statement.

The first is, if you just turn to figure 1, which follows page 5, the line with the squares there is the CBO baseline forecast cash balance in the highway trust fund done last year. The line with the pluses is the CBO baseline forecast for the highway trust fund balance done this year. The long-run prognosis for the highway trust fund is much better than it was 1 year ago.

There have been some changes on the revenue side, but the main reason for the improvement in outlook, as compared to last year, is the two separate limitations on obligation ceilings enacted in the past year. One was part of last summer's budget resolution and the second was the Gramm-Rudman bill that took effect the first of this month.

Second, until the Congress began to limit obligation ceilings, the main control mechanism for the highway trust fund was the Byrd amendment that focuses on unfunded authorizations. In today's world, if there is a limitation on obligations, and no change in authorizations, which has been the case, then these unfunded authorizations will keep on growing. We work out in table 2 a little exercise that shows how the Byrd amendment will have the unintended effect of limiting spending before there is any need to in terms of the trust fund cash balance that we show in figure 1.

So, one thing that the Congress many wish to consider is a change in the control mechanism, to make it more realistic given what apparently is a new procedure for limiting highway obligations either in repeated doses of Gramm-Rudman, or in other steps that might be taken.

The third point is that while the highway trust fund balance looks better than it has in the past, one should do more than just look at spending aggregates such as those in figure 1. One of the things we emphasize in the statement is that as a spending control mechanism, these obligation ceilings will certainly protect the trust fund, but they may not be the best way to allocate the limited amount of highway funds. We suggest other mechanisms that would allow more attention to high-priority national needs such as the remaining gaps in the Interstate System.

We have analyzed the gaps in the Interstate System, a rough tally of which is given in table 3 on page 9. Of the 1,100 miles of the Interstate System that remain to be completed, about 20 percent—the number in the upper lefthand corner of that table—are of primarily national significance, and are judged to be, by our statistical analysis, of very high priority.

There is nothing in the present obligation ceilings system that forces States to focus on that part of the table. Indeed, there is an incentive for the States to divert their funds to the items of primarily local significance in the second row. We suggest a few changes in matching provisions that could focus the State highway departments on the high-priority programs of national significance.

Fourth, you have heard a lot about block grants in the previous testimony, so I won't go through that. But basically we favor that approach for roads that are not of national significance.

Finally, we were asked what is going to happen on the revenue side of the trust fund. I think everybody knows the numbers. If there is still concern about a drop in the trust fund cash balance, which happens to a slight degree in the 1987 baseline as shown in figure 1, you always have the option of raising the motor fuel tax. That seems to bring in a little more than $1 billion per penny on the revenue side.

There is one new element in all of this, as I am sure you know very well—the drop in oil prices. The CBO baseline in figure 1 makes what, at the time, was a reasonable guess about oil prices. We priced estimated the cost of oil to refineries at $23 a barrel. As you know, the spot market price at which some oil is currently being sold is well below that, about $12 a barrel. Since all oil is not sold at that spot market price, the aggregate price is still a lot closer to the $23 than one would think.

The oil market is bouncing around to such a degree that it is hard to tell whether today's $12 oil will become tomorrow's $11, or tomorrow's $20. We haven't redone this whole forecast. But if we were to assume that oil prices would stay about $5 a barrel below the level in our forecast, they would operate through four separate mechanisms to improve the revenue side in the trust fund, adding more than $1.5 billion in all. One has to make very rough estimates——

Senator **Stafford**. Could I ask you a question there, for my understanding of the matter.

Mr. **Gramlich**. Yes.

Senator **Stafford**. The drop in oil prices, and the impact on the highway trust fund's revenue, is that based on the assumption that there would be more driving because the fuel costs would be less, is that the basis for it?

Mr. **Gramlich**. There are four mechanisms involved, but that is the first and probably the most important, certainly the most immediate. But we have also done some calculations on what would happen to the vehicle stock, which is the second thing. A third is that the subsidy for gasohol, which I am sure you know about, is likely to become a dead issue because the drop in gas prices will probably make gasohol uneconomic. The fourth is that there will be a rise in real GNP. In estimating that, you have to assume what monetary policy is going to be, and so forth.

Each of these mechanisms is likely to be important, and will work to improve the balance in the trust fund. So the upshot is that, if we go back to figure 1, where our baseline forecast shows a slow decay in the trust fund balances, that may well turn into a slow rise simply due to the oil market.

That is a very quick summary of the testimony, and I would be pleased to take questions, and Dick Mudge will be pleased to take hard ones.

Senator **Stafford**. Thank you very much, sir.

I think that many members of the committee, who didn't anticipate consuming 2 hours with the Secretary of Transportation, had anticipated questions to you. I hope that it will be agreeable for you and your colleague to answer some questions in writing, if they are submitted to you. Will that be agreeable?

Mr. **Gramlich**. Sure.

Senator **Stafford**. You have projected that if the automatic reductions required by Gramm-Rudman are triggered for fiscal year 1987, the reductions would be approximately 8.4 percent. What economic assumptions is this percentage based on, and what kind of reductions would this mean to the highway program?

Mr. **Gramlich**. The first point is that in figure 1, which I have discussed, we did not include a possible Gramm-Rudman cut for

1987. We only mentioned in passing that there may be an additional 8.4-percent reduction as a result of Gramm-Rudman.

The second point is that the 8.4 percent is actually the result of much analysis and many calculations. I am holding up the recent CBO annual report. If you want to look through that in detail to know what goes into the estimate, you will find it in chapter 3.

Now let me tell you basically what happens. We are required by the Gramm-Rudman law to make an advance forecast of what the sequestration could be for 1987. The way we do that, basically, is to use what you probably know as the baseline budget. Actually it is a baseline budget that has deficits dropping a little more because we assume that the whole spending side of the budget is on a continuing resolution all year, so there is no adjustment for inflation.

If no change is made in current programs—suppose the Congress and the President just play golf all year—the deficit ought to be about $167 billion, which leads to an 8.4-percent sequestration for domestic programs.

If we go to a baseline budget deficit somewhat over $180 billion, that would require a 15-percent sequestration.

Whether the sequestration is 8 percent, 15 percent, or some other number, I should also say that it is probably the most uncertain estimate in the world at this point. The reason is that it is very difficult to project expenditures. If you make a 1-percent error in projecting expenditures these days, that means a $10 billion difference in the amount of sequestration, and that is $5 billion in the amount of nondefense sequestration or a 4.5-percent change in the sequestration rate.

So, to be perfectly candid about this, we are required by law to make this advance forecast, but we don't have the foggiest notion, indeed nobody has the foggiest notion, of what in fact will happen in the fall of this year.

Senator **Stafford**. Thank you very much.

The Supreme Court might throw a new dimension in the whole process by declaring that Gramm-Rudman was an unconstitutional delegation of authority.

Mr. **Gramlich**. They may, but let's be clear on that. Even if that were to happen, there is a fallback procedure in the Gramm-Rudman bill that forces us to report to a joint committee of the Congress on the required sequestration. I believe it is the case—you are in politics and I am not—that if the CBO reports that a $20 billion sequester is needed as a result of not being able to get together on a budget, I believe there would be a lot of political pressure to vote that sequestration. The Supreme Court doesn't really take this off the table, and I think that we ought to be quite clear on that.

Senator **Stafford**. It has been my thought that should the Supreme Court find the delegation of authority to be unconstitutional, we would be somewhat in the position of an automobile from which someone had taken the carburetor, and a new means of getting the machine running again to reach the target would have to occur on the part of Congress.

Mr. **Gramlich**. That is true.

Senator **Stafford**. Senator Symms.

Senator **Symms**. I just have one question, Mr. Chairman.

I want to thank you both for being here.

The question is, Do you believe that the spending in the highway program, within limits of the Byrd amendment, in any way affects the Federal deficits?

Do you want to turn it over to Dick?

Mr. GRAMLICH. No; I don't want to turn that one over to Dick. I want to disagree slightly with what you said earlier, Senator, but I do it with great respect, and also I want to carefully define the disagreement.

Mathematically, it is true that if something affects revenues or spending in the highway trust fund, it would have the same effect on the deficit in the short run. That, I think, everybody understands.

I think the sense in which you mean the question is, if you look at this in a somewhat longer run sense, what leaves the rest of the deficit unchanged, is highway trust fund balances that, in contrast to figure 1, are absolutely flat year after year. Then, if anything the Congress does to the highway trust fund has no effect on the highway trust fund balances, there is no effect on the deficit.

In the present CBO baseline there is a slight—a very slight—drop in trust fund balances. So, in that sense, in this baseline, there is not a major, but a very slight contribution to the deficit.

The administration plan that you have been speaking with the previous witnesses about would lead to a very slight reduction in the deficit because there would be some saving in the highway trust fund.

Highway trust fund policies, do affect the deficit. Whether it makes sense to have that trust fund balance rise, decline, or stay the same is, as I am sure you know, a political issue. It does not really affect the mathematics of the deficit.

Senator SYMMS. Thank you very much, Mr. Chairman.

Thank you for being with us. I think you are lucky that a lot of our colleagues had to go to the floor, because it probably made it easier for you.

Mr. GRAMLICH. Thank you very much.

Senator STAFFORD. For the committee, I want to thank you very much.

We will declare this meeting adjourned.

[Whereupon, at 12:06 p.m., the committee adjourned, to reconvene at the call of the Chair.]

[Statements submitted for the record and responses to additional questions follows:]

STATEMENT OF ELIZABETH HANFORD DOLE
SECRETARY
U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE
SENATE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

MARCH 6, 1986

HEARING ON THE

SURFACE TRANSPORTATION REAUTHORIZATION BILL

Mr. Chairman and Members of the Committee, I am pleased to come before you today to discuss the Surface Transportation Reauthorization Act of 1986 (STRA).

America is entering an era of vast social, industrial and economic change. Sweeping changes are shaping a new America with mobility needs quite different from those of the past. These changes will have a profound impact on safety and mobility in the future. Our nation's Federal-aid programs for highways, transit and safety must be responsive.

It has been said that a journey of ten thousand miles must begin with a single step. The journey which we must travel together, now and in the months to come, will involve many steps, taken on many fronts. One such step is this major piece of legislation.

As the Surface Transportation Assistance Act of 1982 comes to an end, one of the most challenging tasks before Congress and the Administration will be to create the kind of Federal-aid programs which will respond to the 1990s and beyond. We're in the final stages of a program dominated by completing the Interstate System. Work on that System began in 1956 to meet commerce and defense requirements. Over 97 percent of the system is complete and it's time once again to focus on future needs.

The new America has needs different from those forty years ago when the Interstate System was conceived. People are changing where they live and work. According to the 1980 census, more than half of all workers in our large urbanized areas travel to jobs located outside the central city. At the same time, the number of suburban residents commuting to other suburban work locations grew by over fifty percent. In absolute numbers, work trips between suburban jobs and suburban homes grew much more than city-oriented work trips.

We're also seeing unprecedented growth in rural areas. For the first time in history, the population of rural America is increasing faster than the urban population.

The programs we authorize this year must respond to these changing needs. We must give state and local decision makers the tools and flexibility to meet their own unique transportation needs. We must give them increased control and responsibility over transportation investment decisions. We must provide a program structure facilitating long-term transportation planning and balance between alternative modes of transportation. We must move the program closer to the people. The more state and local decision makers are involved, the more likely that needs are met in the most responsible manner possible.

This can be done. In Houston, Texas, a city in which transportation is a critical issue, a plan was developed by the state highway director, the mayor, the transit authority and the county road department. It was not a highway plan or a transit plan, but a plan addressing regional mobility. The result has been the construction of a network of busways funded by both federal transit and highway dollars, rather than separate projects. Under the current program structure, these success stories are limited. In a great many instances, the existence of Federal-aid categories has been the driving force behind investment decisions. States undertake projects principally because special categories of federal funds are available, and the use of the funds limited to such projects. Receiving the maximum in federal funds, not meeting real world needs, drives investment decisions. Our proposal will change this.

The legislation we propose provides such a vision of the future and an integrated approach to our national highway and transit policies.

The initiatives I want to outline today are designed to make the finest system of highways in the world--nearly four million miles of American roads--better yet.

The purpose of the STRA is to redefine the role of federal, state, and local governments in carrying out surface transportation projects involving highway construction, highway safety and transit and to ensure continued funding through 1990. The bill would provide about $57B in authorizations for these programs over the four-year period from fiscal year 1987 through fiscal year 1990. The $57B would be funded from user fees paid into the Mass Transit Account and Highway Account of the Highway Trust Fund.

The STRA would restructure the highway program into four major parts: (1) the Interstate/Primary program composed of the current Interstate construction, the Interstate 4R and the primary programs, (2) the bridge program for primary bridges other than Interstate, (3) safety programs including the hazard elimination and railway-highway crossings safety construction programs, and (4) the highway and transit block grant program composed of the former urban, secondary, and non-primary bridge highway programs and certain transit programs.

INTERSTATE/PRIMARY PROGRAM

In order to give the states increased flexibility to address critical national needs, the Interstate construction, Interstate-4R and primary programs are merged into a single program. The funds may be used at the discretion of the state for any projects currently permitted under these programs. At a time when requirements to reduce the federal deficit make it necessary to reduce program levels, a combined program offers the states more flexibility to complete high-priority work. The new structure recognizes the need to balance the preservation of the existing major highway system with the need to build new highways. States would have the ability to accelerate completion of some Interstate segments since there would no longer be a disincentive to use primary system funds for Interstate construction. Under current law, spending primary system funds on completing the Interstate system would decrease future Interstate construction apportionments.

The combined program would be authorized at a level of $7.8B per year. It would approximate the current relative distribution of these funds among the states since the new program would incorporate the current Interstate 4R and primary formulas and distribute Interstate construction funds based on the cost-to-complete the remaining system. States would have an incentive to allocate funds to the Interstate System because the federal share for Interstate projects would continue to be 90 percent while the federal share for primary projects would continue to be 75 percent.

BRIDGE PROGRAM

With the initiation of the highway and transit block grant the federal-interest bridge program would include only non-Interstate primary system bridges. Bridges on the Interstate System would be eligible under the Interstate/Primary program. The latest Departmental report on the bridge program shows that there continues to be a large backlog of primary system bridge needs. The new program would be authorized at $1.25B per year for fiscal years 1987-1990 to address these needs. Since there is also a large backlog of high-cost bridges, the discretionary portion of the program is being increased from $200M to $250M per year.

SAFETY CONSTRUCTION PROGRAMS

The railway-highway crossing and hazard elimination programs are important to highway safety and show high returns in terms of lives saved and accidents prevented. We recommend funding these programs at $190M per year and $175M per year, respectively. Since their inception in 1973, the various FHWA safety programs are estimated to have saved 39,000 lives and prevented 690,000 injuries. Evaluation studies for projects funded under these programs show accident rate reductions often exceeding 70 percent at rail-highway crossings and 20 percent at other hazardous locations.

HIGHWAY AND TRANSIT BLOCK GRANT PROGRAM

The Block Grant is one of the most important aspects of our proposal. We are witnessing a dramatic change in work travel patterns. The current federal transportation infrastructure in many urban and suburban areas bears no relation to the infrastructure necessary to attain mobility needs. The challenge of the next decade is to adapt our programs to give them the flexibility to meet changing mobility needs. At whatever level of federal funding that we have, it makes no sense to tell state and local governments they must spend transit money for buses when bridge needs are not being met, or highway money for urban highways that cost too much.

Under our bill, state and local governments would be able to base decisions on transportation needs, rather than choosing projects in order to maximize the availability of federal funding. The bill would replace the current FHWA Urban System program, the FHWA Secondary System program, the FHWA non-primary system portion of the bridge program, and the UMTA formula program, with a block grant program. The UMTA discretionary grant program would be discontinued. Under the block grant, a state would provide assurances that it would comply with applicable federal requirements. Federal review and approval of projects would not be required. Instead, funds would be obligated based on assurances and compliance would be monitored through post-obligation audits.

Structure

This program would have an urban mobility component and a state component. Under the urban mobility component funds would be allocated to large urbanized areas for either highway or transit capital projects. Under the state component funds could be applied to either highway or transit projects. A state could choose to use funds from the state component in rural and small urbanized areas for transit operating assistance. The amount used could not exceed the amount available in fiscal year 1985 for operating assistance in these areas.

Distribution

The program would be authorized at a level of $3.3B per year which is equivalent to the sum of the fiscal year 1986 program levels for the FHWA programs that are incorporated ($2.2B from the Highway Account) plus $1.1B from the Mass Transit Account. All of the funding would be derived from fees paid into the Highway Trust Fund.

Formula

The funds would be distributed to each state by a formula that incorporates existing formulas for the programs being consolidated. Each state would receive approximately the total amount of funds it received under the current FHWA programs plus an amount of UMTA funds that would be based on the current section 9A and section 18 transit formulas. The funds would be fungible; that is, they could be spent on either highway or transit projects. To continue the consideration presently given to urbanized areas of 200,000 or more population, provisions are included to require that the portion of the FHWA and UMTA funds attributable to these urbanized areas be allocated by the state to these areas. The amounts of attributable funds would be based on the current provisions of FHWA urban system program and the UMTA section 9A formula. The FHWA funds that are not attributable to large urbanized areas could be spent anywhere in the state on eligible highway or transit projects. The Transit Account funds not passed through to the large urbanized areas would be apportioned to the states using the same percentages applicable to small urbanized areas and rural areas under existing law. These funds could be spent anywhere in the state for eligible transit or highway projects.

Program Match

All highway and transit capital projects under the highway and transit block grant would have a maximum federal share of 75 percent. Transit operating assistance for rural and small urban areas would have a maximum federal share of 50 percent.

Program Assurances

A number of assurances would apply to the use of funds under the highway and transit block grant. These assurances would require only a written statement from the Governor that the requirements are being met. States funding transit projects will have to make assurances that call for greater participation by the private sector and more extensive competition in the provision of transit services. The Administration believes that the introduction of greater competition through competitive bidding of service and maintenance should significantly reduce operating costs and the need for federal subsidies.

CHANGES TO TAX PROVISIONS

Highway Revenue Provision. Extension of the User Fees and the Highway Trust Fund

In order to provide continued funding of the program, provisions are included to extend both the user fees and the Highway Trust Fund for four years, through 1992.

Elimination of Certain Exemptions from User Fees

The current exemptions for gasohol, methanol, and ethanol significantly reduce the revenues going into the Highway Trust Fund. In fiscal year 1986, we estimate that the loss amounts to approximately $445 million, and by fiscal year 1990 the loss is expected to increase to approximately $600 million. Since vehicles using these exempt fuels do the same amount of damage to our highways as vehicles using non-exempt fuels, the Administration believes these exemptions are inappropriate and contrary to the user fee principle. Provisions to repeal these exemptions are contained in this bill and the President's tax simplification initiative.

Provisions to eliminate the current gasoline, diesel, and tire tax exemptions for public and private revenue bus operations are also included. These exemptions are estimated to reduce Highway Trust Fund revenues by approximately $100 million in fiscal year 1986, with the reduction increasing to approximately $120 million by fiscal year 1990. The goal of these changes is to charge the actual users of the highway systems for the damage that they cause.

OTHER PROVISIONS

Other provisions of the STRA that would be of interest to this Committee include:

Interstate Substitution Program

Under current law, substitute transit projects are funded from the General Fund and substitute highway projects are funded from the Highway Trust Fund. The bill proposes to eliminate the separate authorization for substitute transit projects and fund both substitute highway and transit projects from the Highway Account of the Highway Trust Fund. This is appropriate because the Interstate projects that gave rise to the withdrawal would have been funded from the Highway Trust Fund. The bill would authorize the combined substitute program at $500 million per year through fiscal year 1990.

Highway Beautification

The bill proposes to simplify the complex and often unworkable Highway Beautification Program. The changes proposed would give states greater flexibility in administering the program and focus federal efforts on billboards in rural areas, where state land use controls are the weakest and esthetic protection is so important. Other changes we propose would sharply reduce the cost of the program while still providing states the opportunity to use federal funds for payments of just compensation for billboard removal, to the extent required by state law.

Motor Carrier Safety Grants

The bill proposes to fund motor carrier safety grant assistance to states at an annual level of $50M, a 150 percent increase over current levels. Equally important, I am asking that these funds be available on a contract authority basis. This will give MCSAP added stability by assuring multi-year funding, providing states with the certainty they need for long-term planning and hiring.

We propose to fund this activity directly from the Highway Trust Fund by means of a set-aside from the Interstate/Primary funds before these funds are apportioned to the states. In addition, the bill would establish a mechanism so that states, at their discretion, could use a portion of their Interstate/Primary apportionment to supplement these funds.

We can do no less. Heavy vehicles represent less than two percent of the nation's registered vehicles and about five percent of all vehicle miles traveled, but are involved in over ten percent of traffic fatalities. Over 85 percent of the injuries associated with large truck accidents were suffered by occupants of the other vehicle, usually a passenger car.

Other Flexibility Provisions

Changes are proposed to increase the flexibility and purchasing power of state funds by reducing federal requirements with the intent of helping states to better meet their transportation needs.

As one example, we are recommending revisions to present toll road statutes. The toll road provisions would permit a state to use toll financing, in conjunction with Federal-aid highway funds, in the construction of new toll roads or the reconstruction of existing toll roads. States would have the option of continuing tolls on these roads after the construction costs had been recovered so long as any excess revenues are used for highway construction on public roads. States would not be permitted to place tolls on existing free roads that were constructed using Federal-aid highway funds.

Disadvantaged Business Enterprises

The STRA does not address the current program for disadvantaged business enterprises contained in section 105(f) of the Surface Transportation Assistance Act of 1982. We hope to work with this Committee to address this provision during the development of reauthorization legislation.

In closing: there is no question that this legislation is a bold initiative. It makes tough choices, and we believe the right choices, to maintaining the proper federal role in the Federal-aid highway system.

U.S. Department of
Transportation

General Counsel

400 Seventh St. S.W.
Washington, D.C. 20590

MAR 27 1986

The Honorable Robert T. Stafford, Chairman
Committee on Environment and Public Works
United States Senate
Washington, D.C. 20510

Dear Chairman Stafford:

Enclosed please find the Department of Transportation's responses to the the questions that you submitted to Secretary Dole following her March 6, 1986 hearing.

Thank you for the opportunity to discuss the provisions of the Administration's proposed Surface Transportation Reauthorization proposal in greater detail.

Sincerely,

Jim J. Marquez,
General Counsel

Enclosures

Record Question 1

INTERSTATE APPORTIONMENT

Mr. Chairman: Your bill provides that $1.635 billion per year in the Interstate-Primary program be apportioned according to the Interstate construction formula. a) Do you believe this is enough money to complete the Interstate by 1990? b) Do you believe that all remaining items eligible for Interstate construction funds are of equal importance to completion of the Interstate System?

Secretary Dole: a) The $1.635 billion per year is less than would be required to complete the Interstate system as included in 1985 Interstate Cost Estimate by 1990. However, under our proposal, the States may also use the remainder of their Interstate-primary apportionment and the Highway and Transit Block Grant funds for Interstate construction if they so desire.

b) No, they are not of equal importance. There are a number of gaps that are necessary to provide an interconnected system. These gaps account for less than 50 percent of the total mileage that is not yet open to traffic. Most of these are already under construction and we are confident that, under our proposal, the State will not abandon work on these gaps. Much of the remaining cost to complete the System is for expensive segments in urban areas that will serve primarily local transportation needs. Our proposal will permit States to decide whether to proceed with those segments or use available funds for other high priority construction and 4R projects.

Record Question 2

APPORTIONMENT OF INTERSTATE CONSTRUCTION FUNDS AFTER 1990

Mr. Chairman: Do you believe Interstate construction funds should be apportioned on the same cost-to-complete basis we have now beyond 1990?

Secretary Dole: We have not made a decision on this and would not expect to make such a decision until we consider post 1990 legislation.

Record Question 3

APPORTIONMENT FACTORS FOR INTERSTATE 4R AND PRIMARY

Mr. Chairman: In your bill, 55 percent of the Interstate-Primary category is apportioned according to the Interstate 4R formula and 45 percent according to the Primary formula. Why did you weight the Interstate 4R program more than the primary program?

Secretary Dole: Our proposed formula for the Interstate/Primary program has three parts. First $1.635 billion is apportioned among the States based on on the cost to complete the Interstate system. Second, amounts are set aside so that no State receives less than 1/2 percent of the funds attributable to the Primary formula. Third, the remaining funds are apportioned 55 percent by the Interstate 4R formula and 45 percent according to the Primary formula.

The FY 1986 authorization for Interstate 4R is approximately 55 percent of total Interstate 4R and primary authorizations for FY 1986 and, the FY 1986 primary authorization is about 45 percent. We continued this split in the third part of the Interstate-primary program so the individual States would receive the same relative share under this part of the Interstate-primary program that they currently receive for these programs.

Record Question
Question #4

ESTIMATED YEAR OF INTERSTATE COMPLETION

Mr. Chairman: Your bill provides $1.635 billion per year for Interstate completion. At this rate, how long would it take to complete all the remaining eligible Interstate construction items, including inflation?

Secretary Dole: At the rate of $1.635 billion per year and provided the minimum one-half percent apportionment is not continued, we estimate that funding for all remaining eligible work would be completed by fiscal year 1996. This is based on Office of Management and Budget inflation rates and bid prices for fiscal years 1984-1985 as reflected in the FHWA Bid Price Index. However, funding eligible for Interstate construction under our bill is not limited to the $1.635 billion of Interstate/primary funds that would be apportioned by the Interstate cost-to-complete formula. Remaining Interstate/primary funds and Highway and Transit Block Grant funds may also be used for Interstate construction at State discretion.

Record Question 5

MAXIMUM HIGHWAY PROGRAM LEVEL

Mr. Chairman: a) What highway program level could the Highway Account of the Highway Trust Fund support over the next four years, including tax receipts, interest and the existing balance? b) Is there any reason why the next authorization bill should not reflect the maximum program level the Trust Fund can support?

Secretary Dole: a) The maximum highway program for FY 1987-1990 that could be supported by the Highway Account without triggering the Byrd Amendment is estimated to be $15.6 billion. This assumes that the current tax exemptions on gasohol and buses are eliminated as proposed by the Administration. Under current law, without repeal, the program level would be $14.530 billion.

b) To help reduce the Federal deficit, the Administration proposed a lower program that would be "deficit neutral", i.e., the amount of authorization would not exceed the amount of tax receipts collected during those years.

Another reason that we do not propose to increase authorization levels is that we do not want to take any action which would deplete levels in the Trust Fund and lead to pressure for tax increases. This would not be prudent management of Trust Fund resource.

Finally, the levels we have proposed are adequate. Out levels will maintain the current physical conditions on Federal-interest highways.

Record Question 6

USING INTEREST FROM THE TRUST FUND

Mr. Chairman: What is your view on using the interest accruing to the Highway Account for the highway program?

Secretary Dole: I support using the accruing interest for the highway program but not until the deficit problem is resolved. This Administration has never proposed that this interest be used for any other purpose than the highway and transit programs. However, using the interest accruing to the Highway Account at this time would violate the deficit neutral policy the Administration is pursuing to reduce the Federal deficit and to avoid further reductions that would take place if Gramm-Rudman-Hollings targets are not met.

Setting program levels to spend interest increases outlays beyond the level covered by user fees and hence adds to the deficit. For this reason, the Administration opposes expenditure of interest over the period of the authorization bill.

Record Question 7

BYRD AMENDMENT AND THE FEDERAL DEFICIT

Mr. Chairman: Do you believe spending in the Highway program within the bounds of the Byrd Amendment in any way affects the Federal deficit?

Secretary Dole: Yes, since Trust Fund spending is included in the unified budget, highway program revenues and expenditures do affect the Federal deficit. The Byrd Amendment was designed to keep the Trust Fund operating on a pay-as-you-go basis in the long term and is independent of the determination of the annual Federal deficit.

Record Question No. 8

Impacts of User Fee Exemptions on Highway Trust Fund (HTF) Revenues

Mr. Chairman: What impact(s) have the user fee exemptions had on Trust Fund income, particularly the gasohol exemption?

Secretary Dole: For Fiscal Year (FY) 1985, the revenue loss suffered by the HTF attributable to the exemptions we propose to eliminate is estimated to be about $400 million. This figure includes a loss directly attributable to the gasohol exemption of about $300 million, based on Treasury's original estimates of FY 1985 revenues. Recent reports received from the States by DOT indicate that the FY 1985 loss in HTF revenue due to the gasohol exemption will be approximately $400 million. The earlier Treasury FY 1985 estimates will be updated to reflect this more current data submitted by the States. Exemptions for buses that charge revenues amount to a little over $100 million per year.

The losses for these exemptions are expected to grow with the total loss to the HTF reaching over $700 million by Fiscal Year 1991, which includes an estimated loss due to the gasohol exemption of about $600 million per year.

Record Question
Question #9

SYSTEM REQUIREMENTS FOR INTERSTATE SUBSTITUTION PROJECTS

Mr. Chairman: Your bill permits States to use Interstate substitute funds on any public road, rather than restricting these funds to the Federal-aid system. What is the reason for this change?

Secretary Dole: Under current law, substitute highway projects can be on the Federal-aid Primary, Secondary, or Urban Systems. Many of the projects selected by local officials are on the Federal-aid Secondary and Urban Systems which would be eliminated under our proposed legislation. We are proposing increased flexibility in the use of substitution funds in various ways. For example, we would delete the requirement for prior approval of substitute project concepts. Therefore, it was considered more appropriate to permit previously selected projects to proceed rather than restrict funding to projects on the Federal-aid Primary System only.

When local officials agreed to Interstate System withdrawals, it was with the knowledge that substitution funds could be expended on a wide variety of substitute highway projects serving local transportation needs. It would be unfair to these local officials to restrict funding to the Federal-aid Primary System and not address the local transportation needs.

Record Question
Question #10

CONCEPT PROGRAM FOR INTERSTATE SUBSTITUTE PROJECTS

Mr. Chairman: Is there any reason to continue to require that a State have a concept plan for substitute projects and to limit funds to those projects which are contained in its concept plan?

Secretary Dole: We do not believe there is significant reason to continue the concept plan requirement. When this provision was enacted it was intended to expedite decision making and project development. At that time, withdrawal values were adjusted for inflation and a delay in implementing a concept plan would ultimately require more Federal funding. However, the 1982 Surface Transportation Assistance Act eliminated the inflation adjustment provision.

Most concept plans were developed in 1983. It would be inappropriate to restrict funding through FY 1990 to only those projects selected and approved in an outdated 1983 concept plan. In fact many concept plans are already outdated and do not reflect current transportation needs. Elimination of the concept plan requirement will substantially add to State/local flexibility in the use of substitution funds.

Record Question 11

TOLL PROVISIONS

Mr. Chairman: Your toll provision limits the combined use of Federal-aid funds and toll receipts to new construction. a) Would this include new bridges which are built to replace existing bridges? b) Would this include any highway facilities where Federal funds have already been used for preliminary engineering and design work?

Secretary Dole: a) Federal-aid funds could be used to replace an existing bridge under proposed Section 129 provided the bridge was a bridge subject to tolls on October 1, 1986, or was originally constructed as a new toll bridge under the criteria of this section. The exception to these requirements would be privately owned bridges, free or toll, subsequently acquired by the State. Where this occurs, the provisions of Section 129 could be used by the State to acquire and to recover its costs of acquisition which may include the cost of rehabilitation or reconstruction.

b) Under the definition of the term "new toll highway" that is included in our proposal, a new highway may be converted to a toll facility at any time prior to its completion and opening to traffic even if Federal funds had participated in earlier phases of project development.

Record Question 12

TRUCKING INDUSTRY OPPOSITION TO TOLL ROADS

Mr. Chairman: The trucking industry has opposed the use of Federal-aid funds on toll roads. a) Do you have any information regarding the use of a toll road and a free road? b) What is the best way to prevent discriminatory tolls being levied on trucks?

Secretary Dole: a) We are proposing the use of Federal-aid for the construction of toll roads to help States to meet specific current and future highway needs especially in our rapidly developing urban areas. This new mechanism will foster a larger highway program to better maintain existing highways and provide additional capacity that will foster better service and, consequently, safer traffic operations on existing highways.

Comparative truck count data on specific routes such as toll roads and nearby parallel free roads would have to be obtained from toll authorities and State files. FHWA does not keep such data.

b) Our studies of highway cost responsibility indicate that on a per mile basis the toll for a 75,000 pound truck should be 18 times as much as that for an average automobile. However, tolls for trucks are generally from two to four times that for an auto. Consequently, it would appear tolls currently discriminate in favor of heavy trucks.

Record Question 13

TOLL FINANCING- BONDS

Mr. Chairman: What effect will the provisions in the House tax reform bill have on the bond market and the States' ability to use bonding both for toll road construction and to finance other highway construction?

Secretary Dole:

According to the Treasury Department, nothing in the House-passed tax bill would affect the ability of states to issue tax-free bonds to build toll roads or other general purpose highways. While the House bill redefines the types of activities that qualify for treatment as industrial development bonds, general purpose roads would not be affected. States could continue to float bonds for toll roads at the the lower interest rate that reflects that the income is tax-free to the holder.

Record Question 14

BACKLOG OF FEDERAL LANDS HIGHWAY NEEDS

Mr. Chairman: What are the estimated needs for each of the Federal lands programs including Forest Highways, Public Lands Highways, Indian Reservation Roads, and Park Roads and Parkways?

Secretary Dole: The backlog of forest highway (FH) needs attributable to providing access to the national forest system is approximately $3 billion. There are approximately 25,000 miles of FH. These are public roads under the jurisdiction of State and local governments and have been designated as FH serving the national forest system.

There is no practical way of determining the backlog of public lands highways (PLH) needs. Unlike other Federal lands categories, PLH are not a uniquely designated system of roads since any Federal-aid route traversing Federal lands would be eligible for funding under this program. The PLH are also eligible for other Federal-aid and Federal lands highways funding. Annual PLH funding requests have exceeded authorized funding by two to three times.

The backlog of Indian reservation roads (IRR) needs exceeds $2 billion. There are approximately 25,000 miles of IRR on the Bureau of Indian Affairs' road system, which are open for public travel.

The backlog of park road and parkway (PR&P) highest priority needs exceeds $1 billion. There are approximately 8,000 miles of PR&P. These public roads are under the jurisdiction of the National Park Service and provide access to or within the national park system.

These needs estimates include many non-essential projects. Our funding levels are designed to address the most essential needs.

Record Question 15

FOREST HIGHWAY ALLOCATION

Mr. Chairman: You propose to apportion funds for the Forest Highway program on the basis of relative needs. Please describe what is included in relative needs and how these needs are determined.

Secretary Dole: 23 U.S.C. Section 202(a) provides for allocation of forest highway funds ". . . according to relative needs of the various elements of the national forest system . . . taking into consideration the need for access as identified by the Secretary of Agriculture through renewable resource and land use planning, and the impact of such planning on existing transportation facilities." Resource outputs and condition of designated forest highways are the key indicators of relative need.

The Secretary of Agriculture has determined that timber volume planned to be sold and planned recreation use are the two main national forest's renewable resource outputs identified by land management planning as having a direct impact on forest highway transportation needs. The factors are derived from current data used in the Forest and Range Land Renewable Resources Planning Act. Other planning data, such as land area and present value of forest output, were not adopted since these did not have a direct relationship or significance to highway transportation needs.

The condition of designated forest highways is the other relative need criteria. This has been expressed as forest related costs to improve forest highways serving the national forest system. Designated forest highways are public roads under the jurisdiction of State or local governments which provide access from safe and adequate highways to the renewable resources in the national forest system. The Federal responsibility to assist in the development and improvement of designated forest highways, as related to the national forest, can be expressed as forest related improvement costs. The forest related improvement costs have been determined by multiplying the relative improvement costs by the percent of forest related traffic. Factors such as length, width, terrain, condition of roads/bridges, and unit cost factors were used in determining relative improvement costs.

The Secretary of Agriculture has determined that timber volume planned to be sold and planned recreation use are equally important and should be given the same relative weight. It was jointly determined that renewable resource outputs (timber volume and recreation use) and forest related improvement costs are of relative equal importance in determining equitable distribution of funding resources. Opportunity was given for public review and comment as part of the rulemaking process.

Record Question #16

EFFECT OF CHANGING STANDARDS TO GUIDELINES ON SAFETY CONSTRUCTION PROGRAMS

Mr. Chairman: Section 203 changes standards to guidelines. How will this change the implementation of the highway construction safety programs?

Secretary Dole: This proposed change will have no effect on implementation of the highway safety construction programs. Our April 1982 rulemaking found that activities which lead to better identification of hazardous locations and implementation of safety construction and traffic operational improvements are the most effective programs for continued Federal funding under the FHWA part of the Section 402 highway safety program. Emphasis will continue to be placed on funding these activities regardless of the status of the proposed change. Funds for carrying out the actual improvements will continue to come from the Federal-aid highway program and from State and local jurisdictions.

Record Question #17

National Highway Safety Advisory Committee

Mr. Chairman: What is the role of the National Highway Safety Advisory Committee and what kinds of issues will it be addressing?

Secretary Dole: The charter of the Committee is to take a broad view of the Department's activities under the Highway Safety Act and to advise the Secretary on research and development as well as on the standards or guidelines for the program. In recent years, the members have been very helpful in carrying the message about our safety belt and drunk driving programs to their respective organizations and constituencies. The Committee's recommendations with regard to problems associated with elderly drivers and heavy truck safety, particularly in the area of licensing, are recent examples where the Committee has been very helpful. We anticipate that the Committee will continue to be active in these areas in the future and will make a useful contribution to highway safety. To help improve the Committee's work, the Department has transmitted legislation to Congress to streamline the Committee's operations. This legislation would reduce the number of members on the Committee and provide for their appointment by the Secretary rather than by the President. The expertise required of the members would be set forth in greater detail, so that the Committee would have knowledgeable members in all areas of its reponsibility. Finally, the legislation would eliminate the compensation for members over and above reimbursement for travel expenses.

Record Question
Question #18

BMCS SAFETY GRANTS

Mr. Chairman: You have proposed to fund the Bureau of Motor Carrier Safety program's safety grants out of the Highway Trust Fund with contract authority. Why are you recommending this?

Secretary Dole: We are requesting contract authority from the Highway Trust Fund to correct two weaknesses in the grant program as currently funded. These weaknesses are (1) the inability of the States to do multiyear planning and programming, due to the annual appropriation process, and (2) the lack of assurance of continuity in the program. Due to these weaknesses, many States have approached the program on a short-term basis. Some States use overtime, normal days off, and loan positions to accomplish program objectives. Actions such as these are inefficient and tend to waste program funds. Predictable contract authority should help correct the problem. In addition, States would have the discretion to allocate more funds for highway safety under our proposal since we would permit Interstate/Primary apportionments to be used for motor carrier safety activities.

Record Question 19

BLOCK GRANT FEDERAL REQUIREMENT

Mr. Chairman: Under the highway and transit block grant proposal, States would provide assurances that they had complied with applicable Federal requirements. a) What Federal requirements would be included under these assurances for highway projects and what would the assurance consist of? b) What kind of Federal review or enforcement would take place?

Secretary Dole: a) Requirements that will be satisfied through State assurances include: pass through of funds to urbanized areas, payments received expended for eligible projects, National Environmental Policy Act (NEPA) and other environmental laws, nondiscrimination requirements, Uniform Relocation Assistance and Real Property Acquisition Act, consultation with local officials, public involvement, and Davis-Bacon. The State would submit annual written assurances covering these items for the block grant program. Additional assurances for individual projects would not be required. In the case of the National Environmental Policy Act of 1969 and other Federal environmental laws, the State must annually certify that they will assume our responsibility to carry out such laws under our regulations. They must also certify that they will accept the jurisdiction of the Federal courts for purposes of enforcement of the responsibilities they are assuming.

b) Periodically FHWA and/or UMTA would make reviews to assure that a State is carrying out the block grant program in accordance with the requirements. If we find that a State is not complying with any of the requirements, it will be given 60 days to take appropriate corrective action. If the corrective action is not taken, we could withhold future payments until the necessary action was taken.

Record Question 20

BENEFITS OF HIGHWAY AND TRANSIT BLOCK GRANT

Mr. Chairman: What benefits would the States receive from the Highway/Transit block grant they that do not receive now?

Secretary Dole: The block grant combines $2.2 billion in Highway Account funds with $1.1 billion from the Mass Transit Account to provide broad flexibility for State and local decisions on the use of funds for highways or mass transit capital projects and even permits limited use for mass transit operating subsidy. It eliminates several costly requirements, such as penalty provisions and approvals for individual projects. Moreover, requirements that cannot be totally eliminated are satisfied through State assurances. It allows States to act for the Secretary under DOT regulations in carrying out numerous environmental requirements. It allows States and locals to design projects to their own standards, and eliminates numerous individual project approval actions. It provides accelerated payment procedures. It eliminates direct Federal involvement during program and project development and implementation. Because of reduced Federal requirements and Federal involvement, the block grant allows States and localities to utilize funds more cost effectively for projects of primarily local and regional interest.

Record Question 21

85 PERCENT MINIMUM FOR MASS TRANSIT ACCOUNT CONTRIBUTIONS

Mr. Chairman: Do you believe all States should receive a minimum 85 percent return on their contribution to the Mass Transit Account as they do from the Highway Account?

Secretary Dole: No. During development of the 1982 Surface Transportation Assistance Act, the need for stable, predictable funding for the transit infrastructure was recognized as well as the fact that an effective transit program benefits highway users as well as transit users. However, we do consider the present discretionary allocation of the 1 cent gas tax for transit to result in an inequitable distribution of this nationally collected tax. For this and other reasons, we have proposed to end the discretionary grant program and allocate the penny by formula.

Record Question 22

BLOCK GRANT AND TRANSIT FUNDING FOR SECTION 18 RURAL PROGRAM

Mr. Chairman: How much of the transit penny in the block grant would be reserved for the section 18 program? What, in your view, will this reduced funding level do to the section 18 program?

Secretary Dole: None of the funds under our block grant proposal actually would be reserved for the section 18 rural program. Rather, we are proposing to use the same allocation percentage used in current law for section 18 - 2.93 percent - as part of the allocation of Transit Account funds to each State. We also propose to use the urbanized areas' allocation percentages in current law to allocate the rest of the Transit Account funds to the States. Once these Highway and Transit Block Grant funds are allocated, each State would have total discretion to decide where and how the funds are to be spent (except for that portion of the funds that must be passed through to large urbanized areas - approximately $1.5 billion of the total block grant amount, $3.3 billion). Since the States would have complete discretion in allocating approximately $1.8 billion of the block grant funds, we cannot predict what level of transit funding each State would provide to rural areas.

Record Question 23

BLOCK GRANT SPENDING FOR HIGHWAYS AND TRANSIT

Mr. Chairman: Do you have any information regarding how much of the highway and transit block grant States and localities might spend on highway projects and how much on transit?

Secretary Dole: No. Under the block grant program, all the funds from the Highway Account and the Mass Transit Account may be used for either highway or transit projects. In areas of 200,000 or more, local officials will make the decision on whether to use the funds for highway or transit projects. In the rest of the State, the State will make the decision in consultation with the appropriate local officials. A primary benefit from the block grant is to give the States and local officials the flexibility to use all funds for the highest priority highway or transit projects in a particular year, as they choose.

Record Question 24

ADMINISTRATION OF BLOCK GRANT

Mr. Chairman: How would the administration of the highway and transit block grant be divided between UMTA and FHWA? Who would be responsible to enforce the Federal requirements?

Secretary Dole: The block grant will be administered jointly by FHWA and UMTA, that is, each agency will distribute its portions of the funds, will review annual assurances concerning the transit or highway use of the block grant and will handle those parts of the block grant over which it has jurisdiction. This includes determining if a State has complied with requirements and if any necessary corrective action should be taken. If either FHWA or UMTA were to make such a determination, future payments of block grant funds could be withheld.

Record Question 25

PERSONNEL REDUCTION BECAUSE OF BLOCK GRANT

Mr. Chairman: Will a reduction in the Federal role resulting from the highway/transit block grant mean a reduction in UMTA and FHWA employees?

Secretary Dole: Of the savings that might occur, we would direct them to the Interstate/Primary Program. We have included a provision to repeal the current certification acceptance (CA) provision so that it would no longer apply to primary system programs. We believe that it is appropriate for FHWA to be involved in all stages of Interstate-Primary projects. Further emphasis is also needed on the bridge programs and on pavement rehabilitation.

In UMTA, since most of the funds will be administered through the block grant which requires substantially reduced Federal oversight, we do anticipate substantial staff reductions. We are proposing to reduce staffing levels in UMTA by 25 percent by FY 1987.

Record Question 26

BUY AMERICAN REPEAL

Mr. Chairman: Please explain why you believe the Federal-aid highway program should not be subject to the Buy America requirements?

Secretary Dole:

We believe that the Federal-aid program should not be subject to the current Buy America requirements for both trade and program reasons.

Trade Reasons

The Administration believes in free trade. We find too often that protectionist measures are counterproductive and result in retaliation and higher prices. Moreover, the Buy America provision has had an insignificant impact on imports of foreign steel. Steel used in highway construction represents only 1% of all steel used in the United States.

If this provision is repealed, it will show the willingness of the United States to remove trade barriers. The United States is seeking to have similar restrictions imposed by foreign countries removed.

Program Reasons

The Buy America provisions can add up to 25% to the cost of items being purchased. In a time of reduced Federal resources, we should try and stretch our program funds by reducing such costly provisions.

Also, the Buy America provisions create significant burdens for states and contractors who must determine the origin of all steel materials purchased. We believe that we should reduce program implementation burdens wherever we can.

Record Question
Question #27

COST OF BUY AMERICA REQUIREMENTS

Mr. Chairman: To what extent have the Buy America requirements added additional costs to the highway program?

Secretary Dole: The Buy America provisions may add up to 25 percent to the cost of items being purchased. If the price of domestic steel exceeds the cost of foreign steel by 25 percent, the project may be let by alternate bidding procedures. In addition, the Buy America provisions create significant burdens for States and contractors who must determine the origin of steel materials purchased.

Record Question #28

DAVIS-BACON COSTS

Mr. Chairman: What additional costs have Davis-Bacon requirements added to the Federal-aid highway program?

Secretary Dole: Estimates of the costs imposed by the Davis-Bacon Act have been developed in a number of studies by government agencies and academic researchers. These estimates generally range between 2 percent and 4 percent of the value of public construction. The Federal Highway Administration recently estimated that the Davis-Bacon requirement added from $284 million to $568 million to the cost of Federal-aid highway construction in 1984. Because highway construction appears to be at least as vulnerable to Davis-Bacon's cost increasing influences as are other areas of public construction, the 2-to 4-percent impact range used for total public construction can reasonably be applied to Federal-aid highway construction program expenditures to provide an approximation of the magnitude of Davis-Bacon's effect on program costs. For Fiscal Year 1984, applying the 2-to 4-percent impact range to a Federal-aid construction program of $14.2 billion (combined Federal/State program) yields a Davis-Bacon impact of between $284 million and $568 million. These added costs were the result of increased wage costs, reduced efficiency in the use of labor, and burdensome administrative and compliance costs.

Record Question #30

EXCESS COSTS DUE TO STATE PREVAILING WAGE LAWS

Mr. Chairman: Your bill proposes to make ineligible any costs caused by prevailing wage rates higher than those determined by the Secretary of Labor. In how many instances do States have higher prevailing wages and what is this costing the highway program?

Secretary Dole: The identity of States in which the State-determined prevailing wage rate exceeds the Federal Davis-Bacon wage can change from time to time as new wage determinations are made at both the Federal and State level. Based on the latest information available to the Federal Highway Administration, we believe that State prevailing wage rates often exceed the Federal Davis-Bacon wage in 13 States. Our conservative estimate of the savings in Federal-aid funds expected to result from the adoption of our proposal to end Federal-aid reimbursement of the excess costs resulting when State wage determinations are higher than the Davis-Bacon wage is $60 million, annually. This savings estimate is based on an estimated average wage differential of 5 percent in those States where the State-determined wage rate is higher than the Federal rate. Differences between State prevailing wage determinations and the Federal Davis-Bacon wage vary from State to State, from area to area within a State, and from project to project, and there are examples of wage differentials of as much as 20 to 30 percent.

Record Question
Question #29

DAVIS-BACON APPLICATION TO FEDERAL-AID HIGHWAY PROGRAM

Mr. Chairman: Do you believe Davis-Bacon requirements should continue to apply to the Federal-aid highway program? Do you support any changes in the existing requirements?

Secretary Dole: Our reauthorization bill continues current Davis-Bacon requirements. While we considered various amendments, we decided not to propose any changes in our bill.

Record Question #31

National Academy of Sciences' 55 MPH Study

Mr. Chairman: In the STAA of 1982 Congress directed the National Academy of Sciences to study the benefits and the costs of the 55 mile-per-hour speed limit. In its report, the National Academy committee recommended "that the Federal government measure State compliance with the speed limit through a point system that attaches more significance to high-speed violations than to violations just above the speed limit." What is your view regarding this recommendation?

Secretary Dole: The Department is continuing to review the options concerning the implementation of the 55 mph law. The point system proposed by the National Academy of Sciences report represents an effort to tailor the enforcement criteria to fit the severity of State compliance problems. We would have reservations about a point system which would threaten a large number of States with noncompliance, but we are continuing our examination of the general concept of a point system and other recommendations in the report. The requirement for a system that treats all States equitably, yet still provides for public safety, has made analysis a complex task.

Record Question #32

The 55 mph Limit on Rural Interstates

Mr. Chairman: The National Academy of Sciences' committee studying the 55 mile-per-hour speed limit had differing views on the safety effect of permitting higher speed limits on certain rural Interstates. What is your view on the safety impact of permitting the States to set a higher speed limit (60-65 mph) on rural Interstates?

Secretary Dole: Although the committee differed about the continuance of the 55 mph limit on rural Interstates, they agreed that increasing the speed limit would have an adverse effect on safety. The committee estimated that increasing the speed limit on all rural Interstates would increase fatalities on those highways by 20 to 25 per cent, resulting in approximately 500 additional fatalities each year. We are still reviewing the committee's report, but at this time we find no reason to dispute this estimate.

Record Question #33

Federal Regulation of Speeds

Mr. Chairman: Why should the Federal government rather than State governments set the speed limit?

Secretary Dole: The 55 mph speed limit was enacted during the energy crisis of 1973-1974. The need to conserve energy, and petroleum-based fuels in particular, was clearly a national need for which national measures were appropriate at that time. The safety consequences of the speed limit are also national in their scope, with every state recording significant reductions in fatalities and injuries. The question of whether there should continue to be national uniformity in the speed limit for all highways was left unresolved by the National Academy of Sciences study and is among the questions which we are reviewing.

Record Question 34

55 MPH Benefits

Mr. Chairman: What safety benefits have been derived specifically from 55 mph speed limit?

Secretary Dole: The National Academy of Sciences report estimates that the speed limit saved from 3,000 to 5,000 lives a year in the early years, and from 2,000 to 4,000 lives a year thereafter. This speed limit also results annually in about 2,500 to 4,500 fewer serious, severe and critical injuries; and 34,000 to 61,000 fewer minor and moderate injuries. This is consistent with our data and represents the best available estimate of the safety benefits from the 55 mph speed limit.

Record Question 35

HIGHWAY SANCTIONS

Mr. Chairman: Do you believe that sanctions requiring the loss of highway funds are the most effective way of getting States to comply with speed limits, minimum drinking age, and truck size and weight laws? Are there other approaches which you believe might be effective?

Secretary Dole: Specific sanctions on highway programs for not complying with national goals such as the 55 m.p.h. speed limit, maximum truck size and weights or a minimum drinking age have been effective in getting States to take action supporting these goals. In general, we believe that the use of sanctions should be very carefully limited to highway-related purposes because of the potential harm to the highway program. Another approach which could be effective would require higher State matches to receive Federal funds.

Record Question 36

CONTINUING DBE PROVISION

Mr. Chairman: You indicated in your testimony that the STRA does not contain a provision on Section 105(f) of the STAA of 1982. Do you believe this program should be continued.

Secretary Dole: The Department has not taken a position on the extension of the DBE program provision. The issue is still under consideration and the Department intends to work closely with the Congress to address this provision during the development of the STRA legislation.

Record Question
Question #37

TRAINING PROGRAM AND THE 10 PERCENT GOAL

Mr. Chairman: (A) To what extent do training programs for DBE's count toward a State's 10 percent DBE goal? (B) Should these training programs be expanded, and (C) should all funds expended for these training programs count toward a State's DBE goal?

Secretary Dole: As you know, funding to provide training and assistance to DBEs in the Federal-aid highway program is authorized under 23 U.S.C. 140(c). The FHWA has adopted a policy of counting funding for such training programs toward the States' DBE goal only to the extent that it involves a consulting contract with a DBE firm. We do not believe that other funds expended for these training programs should count toward the State's DBE goal. We believe that the training and assistance programs presently provided through the supportive services program adequately address the needs of DBE firms to assure maximum participation in the Federal-aid highway program. We follow the same policy with respect to transit authorities receiving UMTA assistance.

Record Question
Question #38

UNIFORM CERTIFICATION PROCEDURES

Mr. Chairman: Do you believe that specific national, uniform certification requirements should be put in place for the DBE program? If so, what should be contained in these requirements?

Secretary Dole: The Department believes that effective enforcement of the DBE program's eligibility requirements is a key part of ensuring that the program will achieve its purpose. Keeping ineligible or unqualified firms from participating in the program is essential to maintaining the program's integrity and credibility.

The first, and most important, part of this responsibility falls upon the transportation agencies receiving financial assistance from the Department, who must screen applicants for DBE certification. This screening process has succeeded in preventing the participation of a substantial number of ineligible firms.

The Department has also encouraged the transportation agencies to focus more attention to the certification and verification process. As a result, staff and other resources dedicated to certification have been greatly increased.

The Department's regulations provide minimum standards which the federally-assisted transportation agencies must follow in certifying DBEs. We have been striving to provide reasonable uniformity in certification procedures while also permitting transportation agencies to modify and strengthen the procedures and fit their individual operating needs.

Record Question
Question #39

DBE DEVELOPMENT AS PRIME CONTRACTORS

Mr. Chairman: Most DBE contractors now bid as subcontractors. What can be done to enable more of these firms to bid as prime contractors?

Secretary Dole: Because participation in prime highway contracting involves large capital investments, complex financial arrangements, and technical expertise, DBE firms have, in most cases, entered into the industry through subcontracting. Subcontracting allows those firms to develop industry experience and skills without the financial burdens and risks associated with prime contracting. Where not contrary to State laws, many States allow DBEs to bid as primes in a limited competitive environment. This method provides DBEs with hands on experience to prepare bids and perform the work under decreased risk and financial burden.

Record Question
Question #40

CONTRACTING IN SPECIALTY AREAS

Mr. Chairman: We received testimony that nonminority speciality subcontractors are being adversely affected by the 105(f) program. If this is the case, how can we avoid the situation where the majority of the 10 percent goal is being met through specialty work such as landscaping, guardrails, and dirt hauling?

Secretary Dole: It is difficult to judge fairly the weight which should be given to individual complaints of adverse impact, some of which may stem from disappointment at losing competition to new entrants into a formerly less open market, and to the overall effort of the STAA, which increase total contract dollars and opportunities by 50 percent to the entire industry. However, to broaden DBE expertise and participation in other than specialty areas, several procedures are being used by some States which include: (1) breaking out large contracts into smaller units to allow DBEs to bid as primes; (2) establishing set-asides for DBEs in other than specialty areas; (3) designating in the contract, items other than specialty items to be subcontracted to DBEs; and (4) designating a portion of the contract goal to be accomplished in other than specialty areas. We will continue to work with the States and support these and other innovative procedures which encourage the broadening DBE contracting base beyond the specialty areas.

Record Question
Question #41

LIMITATIONS ON SIZE OF DBE'S

Mr. Chairman: Should any limits such as income, number of employees, or volume of work be placed on the DBE's who can participate in the 105(f) program? Should such firms be required to graduate once they have reached a certain level of capability?

Secretary Dole: The Department's regulations include standards established by Section 3 of the Small Business Act by which firms eligible to participate in the DBE program must be determined by the States to be small business concerns. These standards place limitations on the number of employees and average annual receipts for the preceeding 3-year period. The firm is not eligible to participate as a DBE if it is not a small business concern according to the SBA standards.

Record Question
Question #42

MAXIMUM DBE PRICE DIFFERENTIAL

Mr. Chairman: It has been alleged that a premium price is paid in some instances to assure meeting DBE goals. Do you believe this is the case? Should there be a requirement similar to the Buy America requirement that if the cost differential is greater than a certain percentage, MBE requirements do not apply?

Secretary Dole: There have been allegations by non-disadvantaged contractors that prime contractors have awarded subcontracts to DBEs in order to meet contract goals, even though the DBEs' quotes were higher than non-DBE competitors. However, we do not believe a maximum differential can be established because it will depend on the specific circumstances in each individual case. The process of establishing goals is aimed at helping DBEs obtain federally assisted contracts and subcontracts by successfully competing with other firms. A contractor preparing to bid on a federally assisted contract with specified DBE goals should use good business judgment in negotiating with subcontractors, taking prices and contract goals into consideration. However, nothing in the Department regulations would require a contractor, as part of its good faith effort obligation, to pay an unreasonable price for the services of a disadvantaged firm.

Record Question
Question #43

IMPROVEMENTS FOR THE 105(f) PROGRAM

Mr. Chairman: What suggestions do you have for improving the effectiveness of the Section 105(f) program?

Secretary Dole: The proposed Surface Transportation Reauthorization Act, at this time, does not contain a provision with respect to the current DBE program created by Section 105(f). The issue is still under consideration and the Department intends to work closely with the Congress to address this provision during the development of the legislation.

Mr. Chairman
Ques. #44

HIGHWAY BEAUTIFICATION

Mr. Chairman: a. Your bill would limit Federal control over billboards to rural areas. How do you define rural?

Secretary Dole: Rural area is defined in 23 U.S.C. Section 101 as "all areas not included in urban areas". Urban and urbanized areas are defined in 23 U.S.C. Section 101 and include areas designated by the Bureau of the Census as having a population of 5,000 or more. Therefore, a rural area is one with a population of less than 5,000.

Mr. Chairman: b. To what extent would this definition reduce the amount of highways currently subject to the Highway Beautification Act?

Secretary Dole: The highway mileage controlled would be reduced by 42,648.

Mr. Chairman
Ques. #(45)

HIGHWAY BEAUTIFICATION

Mr. Chairman: Your bill would restore the States' ability to use amortization as just compensation for the removal of billboards. Is that correct?

Secretary Dole: Yes, that is correct.

Mr. Chairman
Ques. # 46

AIRSPACE INCOME

Mr. Chairman: a. Your bill provides that any net income received by a State from the use, lease, or sale of right-of-way airspace acquired as a result of a Federal-aid highway project can be used by the State on any eligible Federal-aid highway project. Please describe current law in the area and the reason for this change.

Secretary Dole: Current law and regulations place no restrictions on the use of highway airspace income. Therefore, States may use any revenues generated from leasing air rights as they see fit. In some instances, funds are returned to State general funds while others restrict its use to transportation purposes. Our reason for change is that air rights income is produced by federally assisted highway projects and accordingly should be used only for highway purposes.

Mr. Chairman: b. Does this provision affect anything below ground in the right-of-way. If not, why weren't facilities below ground included as well?

Secretary Dole: The Department's definition of airspace includes that space above, at, or below the gradeline of the highway, lying within the approved right-of-way limits. Under this regulatory definition, below ground facilities are included.

Question #47

Planning in Areas under 200,000 Population

Mr. Chairman: Your bill eliminates the mandatory planning process carried out by Metropolitan Planning Organizations (MPOs) in those urbanized areas below 200,000 population. It would be left to the State's discretion whether or not to have an MPO in those areas. What is your reason for this change?

Secretary Dole: This move is part of the overall policy of eliminating unnecessary Federal requirements. The change is also related to a shift in the definition of "urbanized area" which had the effect of making the Federal planning requirement apply to many very small areas where an extensive planning process is not necessary. Elimination of the Section 134 planning requirements in urbanized areas with less than 200,000 population is an issue that has been discussed for several years. One major reason for this change is that Title 23 relies on the Bureau of Census definition of "urbanized area" for identifying which areas must meet Section 134 requirements. Over the years, this definition has changed. The original definition of urbanized area was an urban area with a center city population of at least 50,000. The latest definition requires an urban place of 2,500 population with surrounding density of 1,000 persons per square mile with a total population for the area of at least 50,000.

While the population in urbanized areas, large and small, has grown modestly (roughly 45 percent between 1960-1980), the number of urbanized areas has increased by almost 75 percent over the same period, from 214 to 373. Had Census retained the definition of "urbanized area" that was initially used in 1962, only 269 areas would be required to meet the Section 134 requirements. We would have preferred that the number of urbanized areas that fall under the 134 requirements remain constant with only minor additions where a need was demonstrated. Currently, 104 urbanized areas have center cities of less than 50,000 population; one of the areas has a center city population of 12,000.

The proposal to raise the threshold (where "Section 134" requirements would apply) from 50,000 to 200,000 was based on the recognition that many of these areas with small central cities do not have transportation problems that require solution through the required "134" process. Where the need exists, we will continue to support these planning programs. Federal funding will continue to be available without the Federal mandate for planning in these areas.

FHWA Record Question 48

Strategic Highway Research Program

Mr. Chairman: You propose spending between $30 and $40 million per year for 5 years on the Strategic Highway Research Program. How is this research going to benefit the Federal-aid highway program?

Secretary Dole: The proposed Strategic Highway Research Program (SHRP) is the result of a study sponsored by FHWA and conducted by the Transportation Research Board. The program was defined with the aid and participation of representatives of Federal, State and local governments, academia and private industry. Six technical areas have been selected for highly focused, accelerated research studies. These include Asphalt, Long-Term Pavement Performance, Maintenance Cost-Effectiveness, Protection of Concrete Bridge Components, Cement and Concrete, and Snow and Ice Control. These areas were selected because they promised the largest potential payoffs in resource savings, reductions in life cycle costs and better service to the traveling public.

Expected benefits to the Federal-aid Highway Program from successful research in the SHRP include:

- o Improved understanding of asphalt properties, allowing use of performance based specifications and use of test procedures which relate the asphalt characteristics to the actual expected performance under traffic loads. A modest 1 percent saving in the cost of asphalt paving would save the highway program $100 million per year.

- o Determination of highway pavement performance under varying climates, maintenance practices, long-term loads, materials and construction practices. This information is needed to improve pavement design and rehabilitation practices and reduce the expected $400 billion pavement expenditure before the end of the century. The information will also help public officials make more informed decisions about axle limits, cost allocations among various classes of highway vehicles and restrictions on truck dimensions and configurations.

- More cost-effective maintenance practices, improved equipment and material specifications and better procedural guides to obtain greater productivity from the $15 billion annual expenditure for highway maintenance.

- Improved or refined methods to extend the service life of concrete bridge decks and other structural elements which are experiencing corrosion of the embedded reinforcing steel. The cost of bridge deck restoration alone, for which corrosion by deicing salts is the predominant cause, is estimated to be $8.8 billion for bridges on the Federal-aid system and an additional $7.3 billion for off-system bridges.

- Improved economy, versatility and durability of concrete in highway pavement and structures. The highway program uses about 13 percent of all Portland cement made in the United States and consumes more than $400 million of the product annually. Increased durability of concrete, particularly for structural uses, will provide long term savings to the highway program.

Record Question
Ques. #49

Emergency Waiver of Competitive Bidding

Mr. Chairman: A provision in your bill would permit the waiver of competitive bidding for Federal-aid highway projects if an emergency situation exists. Please describe what would qualify as an emergency situation.

Secretary Dole: This provision would assure expeditious processing of emergency work without encumbering the effort by extra paperwork. An emergency situation would be one which would be eligible for Emergency Relief funding as emergency repairs. Emergency repairs consist of work necessary immediately after a disaster occurs to restore essential travel. It is in the public interest to waive provisions such as competitive bidding in order to get roads back open to traffic as quickly as possible. Prior to the 1982 STAA, waivers were a matter of public interest finding. Language of the 1982 STAA requires an examination of cost-effectiveness. Although it should be possible to show that such waivers for emergency repairs would be in nearly all cases cost-effective considering the adverse impacts, it is time consuming. Taking the time to do this analysis would defeat the objective of getting closed roads reopened immediately after the disaster occurs or as soon as possible thereafter using emergency or temporary repair techniques. When a road is closed to traffic, including ambulance and fire control vehicles, it is not the time to be generating paperwork to justify exceptions to policies.

Record Question
Question No. 50

Inspection of Federal-Aid Highway Construction Projects

Mr. Chairman:	You have proposed eliminating the final inspection of a Federal-aid project. If this is done, (a) what kind of inspections will continue to take place, and (b) what assurances will the Federal Highway Administration have that all Federal requirements have been met?
Secretary Dole:	(a) The Administration's proposal does not specifically eliminate the requirement for a final inspection of Federal-Aid construction projects but instead allows the Secretary to establish procedures for the Federal inspection and approval of construction projects. These inspection procedures will give the FHWA the flexibility to concentrate inspection efforts in those areas where the maximum benefit will be achieved. The FHWA will continue to conduct inspections of construction projects to the extent feasible within resources while these projects are active. The rigid requirement for a final inspection of all projects including minor projects and projects where the risk to the Federal investment is minimal will be revised to allow for the inspection of these types of projects on a sampling basis. (b) The FHWA will continue to inspect selected active construction projects on a routine basis and to inspect minor projects or short duration projects on a random sampling basis. In addition, the State highway agencies will continue to provide the required certifications of compliance with applicable Federal regulations for all projects.

Record Question
Question No. 51

Sanctions for Inadequate Maintenance

Mr. Chairman:	Your bill provides greater flexibility for applying the maintenance sanction. Why do you believe this is necessary?
Secretary Dole:	The Administration's proposal does not modify the current sanctions for inadequate maintenance as contained in 23 U.S.C., but instead incorporates the maintenance provisions of 23 U.S.C. 109(m) and 23 U.S.C. 119(b) into the basic Federal-aid maintenance provisions contained in 23 U.S.C. 116. This would group the Title 23 maintenance requirements into one section for clarity and simplification. It will be necessary, however, under our proposal to revise the sanction provisions within the current 23 U.S.C. 119(b), which stipulate that if a State is not adequately maintaining the Interstate System, the next apportionment of funds to such State for the Interstate System shall be reduced by amounts equal to 10 per centum. Under our proposal, inadequate maintenance of the Interstate System could result in a sanction of not more than 10 per centum of the Federal-aid Interstate/Primary program apportionment, since these programs are being combined

Record Question
Ques. #52

Flexible State-Federal Pro-Rata Matching Shares

Mr. Chairman: Your bill permits States to overmatch Federal-aid projects. Should any limits be placed on the State's ability to overmatch?

Secretary Dole: We are not proposing a limit on our bill. Our proposal to permit the State to increase its pro-rata participation provides flexibility in the State's financing arrangements. This would allow a State to make more sound fiscal decisions under varying conditions. Obviously placing strict limits would reduce this flexibility.

Record Question
Ques. #53

Utility Relocation

Mr. Chairman: Please describe the change you have made with regard to the Federal participation in the relocation of utility facilities. Is this consistent with the requirements in the Relocation Assistance Act?

Secretary Dole:: The State would be provided greater flexibility in its use of Federal-aid highway funds, except for unobligated Interstate construction funds, for paying for utility adjustments. Basically, if the State has the legal authority to incur the utility adjustment costs, including instances where a utility to be adjusted occupies public right-of-way by permit, then such costs will be considered eligible for Federal participation. Additionally, under the proposed change a State would have the latitude of assigning the non-Federal share of costs of utility adjustments to other parties, such as local governments or affected utility companies, if it so chooses.

Presently, Federal reimbursement for utility adjustments on Federal-aid highway projects are covered under 23 U.S.C. 123. Such adjustments are not eligible for participation under the Relocation Assistance Act and the proposed changes should not alter this situation.

Question #54

USCG Permit Revision

Mr. Chairman, the bill contains a provision which would reduce the number of bridges that have to obtain a Coast Guard permit. Please explain the reason for this provision.

Secretary Dole: The proposed revision to 23 U.S.C. 144(h) is being advanced as a joint proposal by the USCG and the FHWA. The 26 foot length of vessel threshold that is proposed will eliminate red tape, lengthy delays, and extra work required to get permits for minor tidal waterways. The minor waterways used by these small vessels serve little or no navigational traffic. Obtaining a navigation permit for these waterways has continued to be a large frustration to the States. Moreover, our analysis indicated that vessels less than 26 feet long could be trailered around a bridge with a low clearance, if that became necessary.

Question #55

Planning and Research Funding

Mr. Chairman: The bill eliminates the optional one-half percent take-down for research and planning. Please explain why this was eliminated. How many of the States have used the optional amount for research and planning activities?

Secretary Dole: Currently, States that require more planning and research funds than the amount made available by the one and one-half percent (HPR) funds can obtain an additional one-half percent (PR) funds from the non-Interstate (Primary, Secondary and Urban) apportionments . The number of States that have programmed the additional PR funds during the past six years has ranged from 25 to 30 per year. Even with this option, there are many States that still provide additional 100% State funds to ensure sufficient funding of their planning and research activities.

Section 127 of the STRA of 1986 would amend 307(c) by making available a minimum one and one-half percent (HPR) of the funds from the Interstate/Primary and the Bridge Replacement and Rehabilitation programs for planning and research purposes instead of a fixed amount of one and one-half percent as provided for in current legislation.

Accordingly, those States that need additional planning and research funds will (under the proposed change) be allowed to program as much as they need for their planning and research activities. Under the existing legislation the amount of Federal planning and research funds is limited.

Record Question 56

Federal-aid Highway Funds for Training State Employees

Mr. Chairman: Why do you believe Federal-aid highway funds should be available for the education and training of State and local highway department employees?

Secretary Dole: Title 23, Section 321(a) requires NHI, in cooperation with the State highway departments, to develop programs of instruction for FHWA, State, and local highway department employees involved in Federal-aid work. Title 23, Section 321(b) provides Federal-aid funds the States can use to purchase training from public and private agencies, institutions and individuals. Consequently, Federal-aid highway funds are already available on a 25 percent State/75 percent Federal basis. The DOT 1985 Appropriation Act resulted in a program whereby half the training cost incurred by NHI would be recovered from non-Federal employees. However, the legislative language in 23 U.S.C. 321(c) is written in such a manner that the States cannot use the funds provided in 23 U.S.C. 321(b) to purchase NHI training. This restriction has posed both an administrative and a fiscal hardship in some States.

We believe 23 U.S.C. 321 should be revised to let the States decide which funds they will use to pay for NHI training. In addition, we believe that training in certain areas, i.e., environmental assessments, civil rights, minority business enterprises, etc. which implements a Federal program should be provided at no cost. Our bill provides this flexibility.

Record Question 57

STATUTORY AUTHORITY TO SELL UNION STATION

Mr. Chairman: Your bill authorizes the Secretary of Transportation, after acquiring title, to sell the Union Station Complex. Please explain the benefits in selling Union Station.

Secretary Dole:

Section 137, as proposed, will allow the Federal government to transfer title under circumstances that protect the public interest and guarantee a fair return for the taxpayer.

The first step that we have to take was included in the Union Station Redevelopment Act (Act) in Section 113. It authorized DOT to obtain the title to Union Station in order to facilitate commercial redevelopment. We have been successful in getting a project under way that will renew and preserve Union Station as a unique architectural landmark anchoring the north end of the Capitol grounds.

It is not appropriate for the Federal government to own and be a landlord for retail and parking facilities. Such a Federal role is also contrary to the Act's goals which direct us to put maximum reliance on the private sector and to withdraw from any active role in operation and management of the Station as soon as practical. Therefore, the additional authority to sell the title at an appropriate time is needed to allow us to complete the process initiated by Congress.

Record Ques.
Ques. #58

CATEGORIES OF FUNDS WITH HIGHEST PERCENTAGE OBLIGATED

Mr. Chairman: In which of the Federal-aid highway categories have States been obligating the highest percentage of their funds?

Secretary Dole: The States have been obligating the highest percentage of their funds in the Primary; Interstate Resurfacing, Restoring, Rehabilitation, and Reconstruction; Bridge Replacement and Rehabilitation; and Interstate Construction categories.

Record Question #59

WHY THE DEPARTMENT OF TRANSPORTATION IS PROPOSING TO END FEDERAL-AID REIMBURSEMENT OF CERTAIN STATE AND LOCAL TAXES

Mr. Chairman: The bill provides that State or local taxes on a Federal-aid contract or assessed on construction materials used in a Federal-aid highway project are not eligible for reimbursement under the highway program. To what extent have Federal highway funds participated in these costs previously and what is your reason for making them an ineligible item in the future?

Secretary Dole: The Federal Highway Administration estimates that about $140 million or more in Federal-aid highway funds have been used to pay these costs each year. The present budget climate makes it more essential than ever to ensure that Federal funds are used for their intended purpose. If our proposal is adopted, Federal-aid highway funds now being used for the payment of State and local taxes will be redirected to building and repairing highways.

Record Question
Ques. #60

Emergency Relief in California

Mr. Chairman: There have been a number of natural disasters recently where the damage estimates exceed $30 million per State per disaster. The most recent damage occurred from flooding in California. What is your estimate of the damage in California which will be eligible for the Emergency Relief program. Is the $100 million per year authorization for Emergency Relief going to be sufficient for all these disasters, particularly if they are exempted from the $30 million cap?

Secretary Dole: The current estimate of eligible damage due to recent flooding in California is $56 million. Even without the $30 million cap, the $100 million authorization level should be sufficient unless abnormally costly disasters occur in the next year or so.

Senator Stafford
Ques. #1

HIGHWAY BEAUTIFICATION

Senator Stafford: a. How many new billboards have been erected since 1965?

Secretary Dole: Reports submitted by the States identify the number of total signs removed and remaining rather than the number erected. The 1966 inventory indicated the existence 1,100,020 signs. Current figures indicate the existence of 491,714 signs. Therefore there has been an overall net decrease of 608,306 signs.

Senator Stafford: b. How many of these are illegal billboards?

Secretary Dole: FHWA records do not identify how many illegal signs have been erected since 1965; however, 504,727 such signs have been removed.

Senator Stafford: How many of these are nonconforming billboards?

Secretary Dole: FHWA records do not identify how many nonconforming signs have been erected since 1965; however, 116,758 such signs have been removed since 1965.

Senator Stafford
Ques. #(2)

HIGHWAY BEAUTIFICATION

Senator Stafford: How do States keep track of their billboards so they can determine where new billboards are going up, and which billboards are illegal and nonconforming?

Secretary Dole: Although FHWA does not require such statistics to be recorded, the States maintain inventories of outdoor advertising signs along the Interstate and primary highways. The status of each sign is indicated on their inventory. In addition, States utilize a combination of visual surveillance and a sign permit system in order to maintain controls on the erection and maintenance of signs.

Senator Stafford
Ques. #(3)

HIGHWAY BEAUTIFICATION

Senator Stafford: a. How many nonconforming billboards have been removed each year since 1965?

Secretary Dole: The States have reported the removal of over 116,000 nonconforming signs since 1965; 50,879 prior to 1976; 20,973 in 1976; 12,259 in 1977; 11,241 in 1978; 10,150 in 1979; 5,841 in 1980; 4,368 in 1981; 2,934 in 1982; 2,235 in 1983; 1,429 in 1984; 1,112 in 1985.

Senator Stafford: b. How many illegal billboards have been removed each year since 1965?

Secretary Dole: The States have reported the removal of over 504,000 illegal signs since 1965; 311,553 prior to 1976; 50,379 in 1976; 36,249 in 1977; 24,776 in 1978; 26,161 in 1979; 43,228 in 1980; 24,909 in 1981; 14,587 in 1982; 11,640 in 1983; 13,113 in 1984; 20,019 in 1985.

Senator Stafford
Ques. #4

HIGHWAY BEAUTIFICATION

Senator Stafford: Do you believe States should be permitted to provide for either amortization or cash compensation in the removal of nonconforming billboards?

Secretary Dole: Yes. We have included an amendment which is contained in Section 119 of our proposed Surface Transportation Reauthorization Act of 1986 that permits the States to amortize (over a 5 year period) or pay cash for the removal of nonconforming signs. We believe that traditional police power authority over land use should be returned to the States.

Senator Stafford
Ques. # (5)

HIGHWAY BEAUTIFICATION

Senator Stafford: Do you believe there is anything in the United States Constitution that prohibits States from using amortization for the removal of billboards?

Secretary Dole: No. Although the Fifth Amendment provides in part that private property is not to be taken for public use without just compensation, State courts have historically considered nonconforming billboards as being subject to removal through amortization under police power.

Senator Stafford
Ques. #(6)

HIGHWAY BEAUTIFICATION

Senator Stafford: Do you believe that billboards present any safety hazards, particularly in the area of motorist distraction and roadside obstacles?

Secretary Dole: One of the stated purposes of the Highway Beautification Act is to promote the safety of public travel. While the results of research in this area have been inconclusive, some courts have recognized that signs may create a distraction.

Senator Stafford
Ques. # (7)

HIGHWAY BEAUTIFICATION

Senator Stafford: It has been suggested by the billboard industry that removing a sign by providing amortization is the same thing as taking someone's house without paying for it. What is your view of this argument?

Secretary Dole: This has been a longstanding billboard industry argument with which we disagree. State courts have generally considered billboards as being subject to control and removal under State and local police power and zoning authority.

Our proposed bill clearly provides that this particular issue is to be left at the local and State level where, in our opinion, it rightfully belongs.

Senator Symms
Question #1

WYOMING TRUCKS

Senator Symms: FHWA allows heavier trucks in many Western States, but not in Wyoming. a) Why does Wyoming have more restrictive requirements? b) Would FHWA object to an amendment which would allow trucks of similar weights to operate in the Western States under a special permit?

Secretary Dole: a) According to Section 133 of the 1982 Surface Transportation Assistance Act, unless there was a State law in existence as of July 1, 1956, authorizing vehicles in excess of 80,000 pounds gross vehicle weight, such vehicles are prohibited from using the Interstate System. Wyoming law had no such provision while other Western States' laws did.

The 1986 DOT Appropriations Act authorized the State of Wyoming to conduct a demonstration project to document the various impacts of allowing vehicles in excess of the 80,000 pound limit to operate on the Interstate System. The Act also required FHWA to perform a 2-year evaluation of that project and report its findings within 6 months following the demonstration.

b) The so-called Pinwheel amendment is being reviewed by the Department as part of its consideration of a variety of reforms within the trucking industry. The impact of longer combination vehicles must be viewed in the context of productivity gains to the economy and safety concerns of the motoring public. Inasmuch as the Department's review has not yet been completed, it is premature to make a judgement at this time.

Senator Symms
Question No. 2

CONGRESSIONAL DIRECTION ON FULL FUNDING CONTRACTS - EFFECT ON FEDERAL ENVIRONMENTAL LAWS AND AUTHORIZATIONS

Senator Symms: I understand that the Appropriations Committee has directed you to enter into Full Funding Contracts on new start projects. Is it your understanding that to comply with this statute you would be forced to violate Federal environmental laws and would be committing Federal funds not yet authorized?

Secretary Dole: In the fiscal year 1986 Appropriations Act Congress has directed us to begin and conclude negotiations on full funding contracts for new starts in Miami, Seattle, and Los Angeles within a specified time period. We are currently conducting these negotiations. Execution of any such contract before completion of the environmental process would violate Federal environmental laws. In our view, the Appropriations Act language does not require us to sign these contracts within the specified time period, nor does it require us to waive Federal environmental laws. That being the case, these projects are subject to all relevant Federal laws and regulations as are all other projects.

In addition, shortfalls in funding from all sources currently exist for each of these projects. In Miami, the shortfall is $72.1 million, in Los Angeles, $203.1 million, and in Seattle, $151.9 million. These are funds which have not yet been authorized or appropriated by the Congress. Without authorization from Congress, the UMTA Administrator cannot commit the Federal Government to obligate funds beyond September 30, 1986, after which time there are no authorizations for UMTA programs. Therefore, any contract which is signed will have to make provision that these shortfalls in funding will be financed with local resources until or unless legislation authorizing and appropriating additional Federal funds for these projects is enacted into law.

Senator Symms
Ques. #3

HIGHWAY BEAUTIFICATION

Senator Symms: According to the Department of Transportation statistics, in 1965 (the year the Highway Beautification Act was enacted) there were 839,361 nonconforming or illegal billboards subject to removal under the Act's jurisdiction. According to the Comptroller's office 77 percent of the signs now have been removed and over 90 percent of the illegal signs have been eliminated. It is difficult for me to understand how the Department of Transportation can claim this program is "unworkable" or that it should be eliminated based on that record.

Secretary Dole: We are not proposing that the highway beautification program be eliminated, but rather that it be revised. It is true that over 620,000 signs have been removed under the present program. However, in this instance statistics do not convey the entire picture. Some of the fundamental problems that we believe exist in the current program are listed below:

- There are still 153,773 nonconforming signs that cannot be removed without cash compensation totalling nearly $1.1 billion. The estimated cost savings in outdoor advertising by the Administration bill is a maximum of $842 million Federal and $246 million State, and a minimum of $660 million Federal and $226 million State.
- The 1978 amendments require payment of just compensation even where sign removals are unrelated to compliance with the Highway Beautification Act. Thus cities that are trying to remove signs under local zoning can cause the State's Federal highway aid to be reduced by 10%.
- The cash compensation requirement is a Federal requirement

that is more generous than the requirements of the Constitution and traditional State land use laws and results in nonconforming signs staying up. By eliminating the Federal compensation requirement States again will be able to remove signs using their police power. States that elect to pay cash compensation would be able to use their Federal highway funds where the Federal law requires removal.

- The penalty provision does not afford sufficient flexibility to deal with individual compliance problems.
- The current program requires greater Federal involvement than that envisioned with our proposed legislation. We believe the program can be administered more effectively at the State and local level.
- Sign removal in urban areas does not improve the environmental setting as much as removal in rural areas because many signs are legally allowed to remain there. Yet, signs in urban areas are generally more expensive to acquire and remove. Given the experience to date, we do not believe the current program is as cost effective as our proposal which excludes urban areas.
- Because the present program is tied closely to zoning concepts it is sometimes necessary to examine the intent of local officials and review zoning actions in hundreds of jurisdictions. Limiting signs to those in areas actually used for commercial activity should eliminate this administrative burden.

We believe this legislation is consistent with the GAO report of January 3, 1985, which cited several of the above problems.

Senator Bentsen
Minimum Allocation
Question 1

MINIMUM ALLOCATION FUNDING WITHOUT CAP

Senator Bentsen: What does DOT project that the total minimum allocation funding would be for each of the four years under your bill without the $250 million cap?

Secretary Dole: Under the Administration's proposed program levels and program structure for FY 1987-1990 (S.2189), we estimate the 85 percent minimum apportionment would be $336.7 million each year if there were not a $250 million limitation. This estimated minimum apportionment is based on estimated Highway Account contributions by State for FY 1984. The number could change dramatically if different program levels or a different program structure were chosen.

Senator Bentsen
Minimum Allocation
Question 2

MINIMUM ALLOCATION FOUR YEAR REDUCTION

Senator Bentsen: Based on the above projection, how much money do you estimate that you will be cutting from the minimum allocation program for the total four years?

Secretary Dole: Based on the above estimates the eight 85 percent minimum apportionment States would receive a total of $346.8 million less over the four-year period FY 1987-1990 under the proposed $250 million limitation than they would if no limitation were imposed.

Senator Bentsen
Minimum Allocation
Question 3

IMPACT OF MINIMUM APPORTIONMENT CAP

Senator Bentsen: What percentage of Texas' total projected Federal-Aid Highway Program funding does the Texas minimum allocation cut constitute for each of the four years covered by the bill?

Secretary Dole: It is estimated that Texas' total apportionment would be reduced $35.642 million or 4.3 percent each year under the proposed minimum apportionment limitation.

Senator Bentsen
Minimum Allocation
Question 4

MONEY RECEIVED BY DONEE STATES

Senator Bentsen: Please provide an estimate of how much more total money donee States will receive in actual dollar amounts than they will contribute to the Trust Fund for the next four years.

Secretary Dole: Estimates of this nature are tenuous at best. Based on FY 1984 estimated Highway Account of the Highway Trust Fund contributions by State, the President's Budget estimates of Highway Account tax revenues including repeal of gasohol and bus exemptions, and the Administration's proposed program levels, the highway users in the 24 donee States will contribute $10,149 million for FY 1987-1990 to the Highway Account and they will receive $13,203 million in apportionments for the same period. Thus, the donees will receive $3,053 million more than they contribute. This estimate of $3,053 million is subject to change by many factors such as change in highway contributions which are influenced by demographic and economic conditions in each State and change in apportionment factors. Apportionment factors which change annually include Interstate vehicle-miles of travel, Interstate lane miles, mileage of rural delivery and intercity mail routes, and bridge replacement and rehabilitation factors.

Senator Bentsen
Minimum Allocation
Question 5

REDUCTION IN FUNDING FOR MINIMUM APPORTIONMENT STATES

Senator Bentsen: Please provide an estimate of how much less total money each donor State will receive in actual dollar amounts for each of the next four years as a result of your proposed cap?

Secretary Dole: The amount of money minimum apportionment States will lose in the next four years as a result of the proposed cap is estimated to be 346.810 million. The table below gives the individual State amounts. Only FY 1987 is shown as each year would be estimated the same using current apportionment and tax payment factors.

Estimated Amount of Funds Minimum Allocation States will lose in the Next Four Years Due to the Capping Under the Administration Bill (S. 2189)
(DOLLARS IN THOUSANDS)

STATE	TOTAL FY 1987 W/O CAP	TOTAL FY 1987 W/ CAP	DIFFERENCE 1-YEAR	DIFFERENCE 4-YEAR
Arkansas	121,163	120,126	-1,036	-4,145
California	976,504	954,053	-22,452	-89,807
Indiana	248,980	241,821	-7,158	-28,633
North Carolina	280,106	269,877	-10,229	-40,916
Ohio	428,364	423,978	-4,386	-17,545
Oklahoma	186,767	184,790	-1,977	-7,908
Texas	827,202	791,559	-35,643	-142,570
Wisconsin	193,403	189,581	-3,822	-15,286
TOTAL	3,262,488	3,175,785	-86,702	-346,810

Note: This is based on the Administration proposal.

Senator Bentsen
Minimum Allocation
Question 6

CAP ON DONEE STATES APPORTIONMENTS AND ALLOCATIONS

Senator Bentsen: Has DOT considered proposing a cap on donee States apportionments and allocations when they exceed $1 in order to avoid the need to cut donor States below 85 percent return on their contributions?

Secretary Dole: Many times over the years the FHWA has looked at the effects of setting a cap of $1 in apportionments and allocations to a State for every $1 of Trust Fund tax payments attributable to highway users in that State, i.e., a State's apportionments and allocations cannot exceed its Trust Fund contribution. The FHWA found that it would affect many of the States that have limited resources to sustain their highway program. Some of the States that received more than $1 in apportionments and allocations for every $1 paid in the Trust Fund in 1984 were North Dakota, South Dakota, Nebraska, Kansas, New Mexico, Arizona, Colorado, Utah, Nevada, Wyoming, Montana and Idaho. If a limitation of $1 of apportionments and allocation for every $1 of Trust Fund tax payments had been in effect in 1984, the apportionments and allocations to the above named States would have been reduced ranging from 7.4 percent for New Mexico to 49.3 percent for Montana.

Senator Bentsen
Interest Question 1

USE OF INTEREST ACCUMULATION

Senator Bentsen: How will that $1.2 billion annual interest accumulation be used?

Secretary Dole: The interest earned by the Highway Trust Fund will be retained in the Trust Fund. This interest income will be used in the future when the deficit situation is resolved. It will be used exclusively for eligible highway and transit projects.

Senator Bentsen
Interest Question 2

EXPENDITURE OF USER FEES

Senator Bentsen: How do you explain to Highway users that revenue from their user fee payments is not being expeditiously used for Highway projects?

Secretary Dole: The amount of funds proposed to be authorized in a year would be approximately equal to the user fee revenue for the year. In other words, the revenue generated by highway users each year would be authorized for transportation improvements in that year. The uncommitted balance and interest earned will be retained in the Highway Trust Fund and will be used for transportation program purposes when the deficit situation permits.

Senator Bentsen
Interest Question 3

TRUST FUND INVESTMENTS

Senator Bentsen: a) Do you know how Trust Fund money is currently being invested? b) What are we buying with our highway money that we aren't using for highway construction?

Secretary Dole: a) Federal law requires that the Secretary of the Treasury invest funds not required to meet current withdrawals from the Highway Account in interest-bearing obligations of the United States. Consequently, these funds are currently invested in United States Treasury Certificates of Indebtedness at interest rates of 10-1/4 percent and 10-3/4 percent. b) These funds cannot be used for any purpose other than the Federal-aid highway and related programs and will ultimately be spent for that purpose.

Senator Bentsen
Interest Question 4

INTEREST DISGUISING SIZE OF DEFICIT

Mr. Chairman: Wouldn't the Administration simply be using the interest earned on the Highway Trust Fund to disguise the size of the deficit?

Secretary Dole: The interest accruing to the Highway Trust Fund is not being used to disguise the size of the Federal deficit. If the interest earned by the Trust Fund were used to support higher authorization levels (i.e., expenditures), the deficit would be increased because interest accruing to the Trust Fund is a transfer from the general fund and does not actually increase the income to the Federal Government to offset the outlay effect.

Senator Bentsen
Interest Question 5

REDUCED PURCHASING POWER

Senator Bentsen: How much reduced purchasing power do you estimate these deferred expenditures of the Trust Fund interest will have over the next four years?

Secretary Dole: There should be no reduction in purchasing power due to the deferred expenditure of Highway Trust Fund interest. The projected interest rate for the Highway Trust Fund far exceeds the projected inflation rate. The bulk of the Trust Fund balance is invested in June of each year, so the June rate is predominant throughout most of the fiscal year beginning the following October 1. The interest rates in the President's Budget for June for the Highway Trust Fund that will be predominant in each of fiscal years 1987-1990 are: 1987 10 percent, 1988 9.5 percent, 1989 8.75 percent and 1990 7.875 percent. The inflation rates for State and local purchases used in the President's Budget for calendar years 1987-1990 are: 1987 4.5 percent, 1988 4.3 percent, 1989 3.7 percent, and 1990 3.2 percent.

Senator Bentsen
Interest Question 6

DEFERRED MAINTENANCE

Senator Bentsen: Please comment on the potential for increased cost as a result of deferred maintenance that may result from not spending Trust Fund interest. The concern is that the loss of purchasing power and the potential for increased maintenance costs due to deferring interest expenditure will actually cost the American taxpayer more money in the long run and thus have ultimately an undesirable effect on budget deficit.

Secretary Dole: Funding for maintaining the condition of existing major Federal interest highways increases considerably under our proposal. The Surface Transportation Assistance Act of 1982 authorized an average of $4.75 billion a year for the Interstate 4R and the Primary progams taken together. The Surface Transportation Reauthorization Act of 1986 would authorize $3.4 billion to be apportioned to the States using the current Interstate 4R formula and $2.8 billion via the existing Primary formula. This comes to a total of $6.2 billion a year. This sum is part of a combined Interstate/Primary program which is authorized at $7.8 billion a year and includes $1.6 billion a year apportioned using the current Interstate construction formula. All of the $7.8 billion can be used for rehabilitation or construction of major Federal interest highways at State discretion.

Funding for the Primary system bridges would be increased under our bill.

Funding for the secondary, urban, and non-primary portion of the bridge program which has been folded into the Highway and Transit Block Grant, will be mandated at current levels.

Senator Hart

HIGHWAY BEAUTIFICATION

Senator Hart: How does the Department of Transportation's bill (Surface Transportation Reauthorization Act of 1986) prevent sign proliferation in urban areas and protect the investment made by the Federal government through twenty years of sign control?

Secretary Dole: The number of nonconforming signs remaining to be removed in urban areas has not significantly decreased since 1983 because new Federal funds have not been available for their removal. Further, local zoning actions have occasionally resulted in additional signs being erected. By removing the requirement that signs may be removed only if Federal funds are available, State and local governments, if they desired, would be free to remove those signs which conflict with their zoning and land use ordinances. At the present time, many cities and towns have stricter sign controls than the Federal government. Those controls could be enforced by these local governments.

Senator Mitchell

HIGHWAY BEAUTIFICATION

Senator Mitchell: a. Section (K) of the Administration's bill uses the phrase "may approve" rather than "shall approve" in referring to the Secretary's authority to authorize payments to the States from the Trust Fund for the removal of signs. Does this mean that the Secretary's authority is discretionary?

Secretary Dole: Yes. This Section is intended to give States the prerogative of paying just compensation or using an amortization process for sign removal at their election. The authority of the States to use highway trust funds for sign removal is subject to approval by the Secretary.

Senator Mitchell: b. Would it enable the Secretary to act contrary to the principle of just compensation and Fifth Amendment rights?

Secretary Dole: No. This provision does not authorize any unconstitutional takings from sign owners. State laws concerning compensation would continue to apply.

Senator Baucas

HIGHWAY BEAUTIFICATION

Senator Baucas: The legislation proposed by the Secretary requires the removal of nonconforming signs in rural areas while eliminating Federal regulations currently provided under the Highway Beautification Act for the removal of billboards in urban areas. a. What is the justification for this provision?

Secretary Dole: This change would focus Federal efforts on removal of nonconforming signs in rural areas where State land use controls are the weakest and esthetic protection is, in our opinion, most important. Removing signs in urban areas often results in little, if any, positive environmental impact since many signs are, by law, allowed to remain in designated commercial and industrial locations.

Also by eliminating urban areas from control, the cost of the program will be much less.

Senator Baucas: b. Do you feel there is any discrimination against rural areas?

Secretary Dole: No. It is generally acknowledged that billboards detract from the natural beauty of rural areas while being generally more compatible with the urban environment.

Senator Lautenberg
Question 1

UNOBLIGATED BALANCES OF INTERSTATE CONSTRUCTION FUNDS

Senator Lautenberg: There are a number of States, including New Jersey, which have sizable unobligated balances in Interstate construction funds. a) How will these balances be treated under your proposal? b) Would these States actually lose money as a result of the creation of the block grant for major systems?

Secretary Dole: a) Under our proposal unobligated balances of Interstate construction funds previously apportioned or allocated to a State and available on September 30, 1986 will remain available for obligation for Interstate construction projects in that State until October 1, 1990. Any funds still unobligated at that time will lapse.

b) Under our proposal, the $1.635 billion for Interstate construction will be apportioned to those States with remaining Interstate construction work using the 1985 Interstate Cost Estimate adjusted to reflect (a) all previous apportionments, and lapses of previous apportionments, (b) previous withdrawals, (c) previous allocations of Interstate discretionary funds and (d) transfers of Interstate construction funds. The unobligated balance of Interstate construction funds on September 30, 1986 would not affect a State's FY 1987 apportionment.

Yes, New Jersey would receive less Interstate-Primary funds for FY 1987 than the combined total of Interstate construction, Interstate 4R and primary funds it received in FY 1986, ($188 million for FY 1987 vs $215 million for FY 1986). However, on a percentage basis it will receive a slightly larger share of the Interstate-Primary apportionment than its share of the combined Interstate construction, Interstate 4R and primary apportionments for FY 1986 (2.49 percent for FY 1987 vs 2.44 percent for FY 1986). Those States that received a very large Interstate apportionment in FY 1986 compared to their combined Interstate 4R and primary apportionments for FY 1986 and small States that received the minimum (1/2 percent) apportionment for Interstate construction in FY 1986 are the States most likely to receive smaller shares in FY 1987 than they received in FY 1986.

Senator Lautenberg
Question #2

BOND RETIREMENT AND INTEREST ON INTERSTATE PROJECTS

Senator Lautenberg: Under current Law, States can receive authorization to complete an Interstate segment with their own funds and be reimbursed for the principal and interest on the Federal share of the project. Will this feature of current Law be retained under your proposal and will States be reimbursed for both the principal and interest?

Secretary Dole: Yes, our proposal will continue to allow States to advance Interstate projects with their own funds and to receive reimbursement for both principal and interest to the extent currently provided in Section 122.

Senator Lautenberg
Question 3

COMPLETION OF INTERSTATE SYSTEM

Senator Lautenberg: (a) Under your proposal will there no longer be a Secretary's discretionary program for the Interstate System? (b) Will the four year availability of major system funds have the effect of slowing down the completion of the Interstate System?

Secretary Dole: a) There will be no new discretionary funds, but any remaining discretionary funds will be administered under current procedures and can be used for Interstate construction projects.

b) Under current law, Interstate construction funds are available for 2 years, Interstate 4R funds for 4 years, and primary funds for 4 years. Under our proposal, these three categories are combined into a single program that can be used for construction or repair of any major Federal interest highway, and all funds have a 4 year life. The change to standard 4 year life, by itself, will not be a major factor in slowing down completion of the Interstate system.

Senator Burdick
Question #1

Interstate Cost Estimate

Senator Burdick: Under the Administration's Bill, the 1985 Interstate Cost Estimate will be updated for inflation through September, 1986. It would be the last one required for estimating the cost of completion of the Interstate System. If Congress does not approve your bill, will Federal Highways submit a 1989 Interstate cost estimate for the basis of apportioning FY 1990 Interstate funds?

Secretary Dole: Section 104(b)(5)(A) of Title 23 provides for the submission of a revised estimate of the cost to complete the Interstate system in January 1987. If Congress does not approve our bill, we will send the 1987 Interstate Cost Estimate to Congress. If this 1987 estimate is enacted into law, it would be used to apportion the fiscal year 1989 and 1990 Interstate construction funds. There is no present statutory requirement for a 1989 Interstate Cost Estimate.

Senator Burdick
Question No. 2

IMPACT OF REDUCED HIGHWAY SPENDING

Senator Burdick: I support the need to reduce the Federal Deficit; however, I am against a reduction in highway spending. In fact, I have taken every opportunity to oppose further cuts in the obligation limitation ceiling. It is my understanding that your bill places the authorization level at or near the obligation limitation. Based on established road needs, can this country afford further reduction in action spending?

Secretary Dole: The authorization levels proposed in our bill are based on a "deficit neutral" policy whereby total Highway Trust Fund authorizations are set equal to trust fund tax receipts, excluding interest, averaged over four years. Our budget submission proposes an obligation ceiling of $12.42 billion for Federal-aid highways, nearly equal to the proposed authorization level of $12.77 billion. This proposal is consistent with the overall effort to reduce the Federal deficit and to avoid the automatic imposition of further reductions through operation of "Gramm-Rudman".

The proposed funding levels would be sufficient to maintain physical conditions on the Interstate and primary systems, meet needs for structurally deficient Interstate and primary bridges, and continue FY 1986 levels of Federal spending on the secondary and urban systems. The focus on systems of national interest, combined with the realignment of program authority and responsibility under the block grant proposal, should provide sufficient funding and flexibility to meet critical needs.

Senator Burdick
Question No. 3

Removal of Highway Trust Fund from the Unified Budget

Many highway users would like the self-funded Highway Trust Fund to be removed from the unified budget in order to insulate it from further cuts. Would the Administration support this effort?

Secretary Dole: The Administration would not support removal of the Highway Trust Fund (HTF) from the unified budget. The HTF should remain on-budget. Although we believe the program responsibilities supported by the HTF to be very important, we also believe they must be considered in conjunction with other national priorities, including reducing the Federal budget deficit. Highway user fees paid into the HTF are available solely for transportation improvements eligible under programs supported by the HTF. Over the long term, the level of disbursements from the HTF should correspond to the receipts credited to it. However, annual receipts and disbursements from the HTF figure in the Federal budget deficit just as surely as receipts and disbursements from the General Fund. They help to determine the amount of money the Federal Government must borrow each year from the private sector, and, in that way, they have an impact on the national economy. Inclusion of the HTF in the unified Federal budget ensures that program priorities can be balanced with important national economic goals in decisions on annual spending levels.

Senator Burdick
Question No. 4

Using Highway Trust Fund Interest to Reduce the Deficit

The Highway Trust Fund generates $1.2 billion dollars of interest every year. The authorization level set by the Administration's bill does not include interest income. The general consensus is that this is unfair. Are you aware of any OMB plans to utilize interest income from dedicated accounts to reduce the National deficit?

Secretary Dole: There are no proposals to seek legislation to allow the interest income earned by dedicated accounts to be used for other programs in an effort to reduce the deficit. Under the Administration's deficit neutral policy, the interest that will accrue to the Highway Trust Fund will continue to be credited to the Trust Fund. The interest could be used to support higher authorization levels for the Federal-aid highway program after 1990 if the deficit situation has been resolved.

Senator Burdick
Question #5

DAVIS-BACON

Senator Burdick: Federal Highway estimates that Davis-Bacon wage rates increase construction costs 2 to 4 percent. During the July hearings, your agency indicated it had corresponded with the Department of Labor to seek administrative changes to soften the inflationary effect of Davis-Bacon. Has Labor responded to Federal Highway's inquiry?

Secretary Dole: The correspondence that was referred to in the committee's hearings last July were formal comments to a proposed Department of Labor (DOL) rulemaking. The rule was enjoined after it was issued, and that injunction was finally lifted in the summer of 1985. The DOL then was able to reissue final rules. We concurred with those rules.

Senator Burdick
Question #6

Federal Highway Administration's DBE Program Impacts Study

Senator Burdick: a) Has the Federal Highway Administration completed its nine-month study of the impacts of the Disadvantaged Business Enterprise program? b) Did the study find any adverse impacts on non-minority specialty businesses? c) I would appreciate it if you could provide for the record a brief summary of the report.

Secretary Dole: a) The nine-month study of the Disadvantaged Business Enterprise program was conducted by Abt Associates of Cambridge, Massachusetts, under contract to the Federal Highway Administration (FHWA). Abt Associates has submitted the draft report to the FHWA. The draft report reveals areas where data is sketchy, and therefore, the findings are inconclusive. For this reason, the Department has decided to conduct further analysis of the program before issuing a final report. b) The impact of the DBE program on non-minority specialty contractors and the problem with fraudulent minority business fronts are specific areas where the data and analysis on a nationwide basis were inconclusive. c) Until the follow-up study is complete, the Department believes it would be premature to discuss any preliminary findings of the draft report.

Senator Burdick
Question 7

COUNTING WOMEN BUSINESS ENTERPRISE WORK

Senator Burdick: If the 10 percent set-aside for disadvantaged business enterprise is continued, would you support permitting women business enterprises work to count toward the 10 percent goal?

Secretary Dole: Women business enterprises currently can qualify to do work under the 10 percent goal, provided the women who control and own the firm can demonstrate that they are economically and socially disadvantaged.

This issue is still under consideration and the Department intends to work closely with the Congress to address this issue during the development of the highway reauthorization legislation.

Senator Burdick
Question #8

55 MPH Compliance

Senator Burdick: Western States, In particular, have raised considerable opposition to the 55-mile-per-hour speed limit. In the past, I have supported it because driving slower reduces gas consumption and saves lives. The procedure by which Federal highway determines speed compliance is rather complex. a) How are factors such as level of enforcement and reduction of fatalities and accidents included in this process? b) Instead of a full 10 percent penalty, would the Administration support a sliding scale approach based on those two factors on determining the amount of Federal aid to be withheld as a penalty?

Secretary Dole: a) The initial judgment of compliance with the 55 mph statutes is based strictly on the percentage of vehicles reported by a State as exceeding 55 mph on those public highways posted at 55 mph. If the percentage exceeds [redacted] 50, the maximum allowable percentage of 55 mph noncompliance established in 23 U.S.C. 154(f), the State then becomes subject to the reduction of funds process established in the governing regulation. The guidelines developed by DOT that each State uses to develop its annual percentage of vehicles exceeding 55 mph do not take into account enforcement levels or annual changes in the number of fatalities or accidents.

Once a State reports more than 50 percent exceeding 55 mph, however, factors such as fatality and accident history and enforcement levels are among those considered in ultimately deciding how much of a reduction in a State's apportionment of certain Federal-aid highway funds will be imposed.

b) The current language of 23 U.S.C. 154(f) calls for a reduction in the apportionments of certain Federal-aid funds of ... up to 10 percent .... Thus, a "sliding scale" penalty in effect already exists, with the final amount taking fatality and accident history, and enforcement levels, as well as other pertinent information into account.

Senator Burdick
Ques. #9

HIGHWAY BEAUTIFICATION

Senator Burdick: a. Last July, this Committee heard from numerous witnesses on control of outdoor advertising. Does the Administration's budget include funds for removal of billboards?

Secretary Dole: No. There is no specific authorization for removal of billboards in the Administration's legislative proposal. The states would be allowed to use their Interstate-primary funds from the Highway Trust Fund. The legislative proposal permits payment of all bonus claims submitted by the state prior to October 1, 1986, in accordance with existing law.

Senator Burdick: b. The Administration's bill in effect repeals the 1978 amendments by allowing state and local governments to remove billboards through amortization and by dropping the requirement for a federal share. However, the bill allows states to use their Interstate primary program funds if cash compensation is required under state law. Based on these changes, do you predict tighter enforcement and removal of signs by state and local governments?

Secretary Dole: Yes. By allowing state and local governments to remove billboards through amortization we anticipate that those states and localities which wish to impose stricter controls will have tighter enforcement. The end of the requirement to pay cash compensation will allow localities to use traditional police power and zoning authority to control and remove billboards. States which wish to continue to pay sign owners have money available to do so and states not wishing to be more restrictive need not be so.

Senator Burdick
Ques. #10

HIGHWAY BEAUTIFICATION

Senator Burdick: a. How many states require just compensation for sign removal along the primary or Interstate system?

Secretary Dole: All states require the payment of just compensation for sign removal along the primary or Interstate system. Some states are not able to prevent local governments from removing signs by amortization under their local sign control ordinances. If such states do not ensure cash compensation, they could, under 23 U.S.C. 131(b), be subject to a 10 percent reduction of their Federal-aid highway apportionment. In addition, more flexible sanctions are available pursuant to 23 U.S.C. 315, which normally entitles some withholding of project approvals under 23 C.F.R. 1.36.

Senator Burdick: b. Why is this type of payment any different for billboards than for other property removals?

Secretary Dole: Real property for Federal-aid highway projects is acquired by states in accordance with state laws and procedures that require the payment of just compensation. However, in the case of billboards, amortization has long been recognized as a constitutional method by which sign owners are compensated for the value of their signs by allowing the signs to remain in place for a period of time after they no longer conform to state or local zoning regulations. Current Federal law requires the payment of monetary compensation upon removal of signs along the primary or Interstate system. The proposed legislation removes this requirement, and leaves the decision whether to provide compensation by amortization or cash with the state and local government, where it was prior to the passage of the Highway Beautification Act of 1965.

Senator Burdick
Question No. 11

Toll Road Projects - Federal Share

Senator Burdick: The Administration's bill allows new highways constructed with Federal-aid to be tolled. Last July the Congressional Budget Office estimated that new highways would require a 25 percent direct subsidy from the Federal Government in order to break even on construction/maintenance cost. In your bill, is there a cap on the Federal dollar contribution, and will the Federal Government recover a portion of its investment from the tolls?

Secretary Dole: a) Under our bill the maximum Federal contribution on a Federal-aid/toll project would be the maximum Federal share for the type of project involved, e.g., 90 percent for projects on the Interstate system and 75 percent for projects on the primary system. The maximum share for Interstate, primary and bridge projects in States having large amounts of Federal lands could be higher in accordance with the provisions of Section 120 of Title 23. Under our bill, a State could request a Federal share less than the maximum.

b) There is no provision for the Federal Government to recover any part of its share of a Federal-aid/toll project. The States have the option of making the facility free when the bonds are paid off or they can keep the tolls on indefinitely if they agree to use the excess revenues for highway construction on other public roads.

Senator Burdick
Question #12

Federal-aid Eligibility - State and Local Taxes

Senator Burdick: The Administration's bill prohibits state and local taxes paid by a contractor on materials used in construction or on a contract's value from reimbursement by the Federal Government. Many Indian tribal governments have enacted a tribal employment rights ordinance which is basically a tax on the value of the contract. Revenue is used to generate Indian employment and business opportunities. This program has been used by federal highways in implementing the 10 percent setaside for minority contractors and guidelines imposed on contractors for minority workers. If this provision is enacted into law, will Federal Highway continue to pay this tax?

Secretary Dole: Taxes on the value of Federal-aid highway contracts whether imposed by a State, local or Indian tribal government, would not be eligible for Federal reimbursement as a cost of construction. It is not equitable to divert portions of highway construction funds derived from highway user taxes to other public purposes. No revenues are raised except to the extent such taxes are reimbursed by the Federal Government. On Indian reservation roads where the Federal share of the cost of construction is usually 100 percent or 75 percent Federal and 25 percent State, a Tribal tax on highway contracts raises revenues solely from Federal and State highway user taxes.

Senator Burdick
Question 13

SPLASH AND SPRAY SUPPRESSION DEVICES

Senator Burdick: What is your position on requiring truck tractors to be equipped with splash and spray suppression devices? Are they valuable safety features in protecting motorists when passed?

Secretary Dole: The Department's National Highway Traffic Safety Administration (NHTSA) and Federal Highway Administration (FHWA) both have open rulemaking actions that were established through Section 414 of the Surface Transportation Assistance Act of 1982. There was an additional need for data which resulted in the NHTSA reopening its comment period to its notice of proposed rulemaking on February 13, 1986. The comment period closed April 13, 1986. As soon as the comments are reviewed and analyzed, the Department will make a determination concerning further action. Splash and spray has been perceived as a problem for many years. The NHTSA has been heavily involved with research in this area. The Motor Vehicle Manufacturers' Association has completed research in this area as have some individual manufacturing entities in the private sector. Certain combinations of suppression devices may reduce splash and spray to some degree on certain configurations of commercial motor vehicles under some weather conditions. It is not certain what effect this degree of reduction will have on reducing accidents. The Department's studies estimate, however, that a requirement to install splash and spray suppression devices would cost hundreds of millions of dollars.

Statement of
Edward M. Gramlich
Deputy Director
Congressional Budget Office

before the
Subcommittee on Transportation
Committee on Environment and Public Works
United States Senate

March 6, 1986

NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EST) on Thursday, March 6, 1986.

Mr. Chairman, I am pleased to appear before this Subcommittee to discuss the financial condition of the Highway Trust Fund and the resulting implications for the current federal highway program. Considerable change has occurred over the last year. As a result of Congressional concern with controlling the federal deficit, this year's estimated highway fund obligations have been reduced to $13.4 billion, some $2.2 billion below the level originally planned for 1986. This spending restraint makes the Highway Trust Fund appear financially stronger than it has for several years. My testimony today discusses options for refocusing the federal highway program, both to ensure the most cost-effective use of the limited funds that are available and to emphasize those areas of greatest federal interest.

FINANCIAL MANAGEMENT OF THE HIGHWAY TRUST FUND

The Highway Trust Fund was created to provide a stable, long-term source of user-based financing for the federal highway program. The most recent major highway legislation was the Surface Transportation Act of 1982, which, among other changes, increased the federal tax on motor fuel by five cents to nine cents per gallon, with receipts from one cent of the tax dedicated to mass transit. This act extended the taxes through fiscal year 1988, with 1986 the last year of program authorization.

Altogether, the 1982 legislation raised the gross annual receipts for the highway program by almost $5 billion. With interest on the cash balance added, receipts should total about $12.9 billion in 1987. At the same time, however, annual authorizations were increased to $15.6 billion in 1986--about $2.7 billion more than expected receipts.

The main financial control mechanism for the Highway Account of the trust fund is imposed by the Byrd Amendment, which has been in effect since the Highway Trust Fund began in 1956. The Byrd Amendment focuses on unfunded authorizations--that is, total unpaid authorizations less any cash on hand. In an attempt to restrict spending before the cash balance becomes depleted, this provision forces an automatic reduction in funds available to the states if unfunded authorizations exceed revenues expected over the next two years.

In recent years, to limit spending, the Congress has imposed a ceiling on annual highway obligations. Thus, federal grants to states have been restricted to sums less than those originally authorized by the Congress (see Table 1). But since authorizations have not been limited concurrently, the Byrd Amendment may now have the unintended effect of imposing additional restrictions on spending well before an unsound cash position is reached.

TABLE 1. COMPARISON OF FEDERAL HIGHWAY AUTHORIZATIONS AND OBLIGATION LIMITS IN RECENT YEARS (In billions of dollars)

Fiscal Year	Total Authorizations	Obligation Ceiling for Federal-Aid Highways	Total Highway Obligations a/	Authorization Minus Obligations
1983	12.9	12.4	13.0	(0.1)
1984	14.0	12.520	13.2	0.8
1985	15.2	13.250	14.3	0.9
1986	14.9	12.2	13.4	1.5
1987	15.5 b/ c/	12.7 b/ c/	13.75 b/ c/	1.75
1988	16.0 b/	13.2 b/	14.25 b/	1.75

SOURCE: Congressional Budget Office.

a. Includes a small amount of obligations not under the ceiling.

b. CBO baseline estimates.

c. The deficit targets in the Balanced Budget Act of 1985 imply an 8.4 percent cut in obligations and authorizations below the level for 1986. If the act is implemented, it could reduce total highway obligations to $12.3 billion, the ceiling on obligations for Federal-Aid highways to $11.2 billion, and total authorizations to $13.6 billion in 1987.

Last year the Congress made two significant cuts in the ceiling on highway obligations. First, as part of the continuing resolution (P.L. 99-190), obligations for the Federal-Aid Highway System were set at $12.75 billion for 1986, some $1.7 billion below the amount set in the 1982 Surface Transportation Act. This change was motivated both by concern that the Highway Trust Fund had become overextended financially as well as by an interest in controlling the overall federal deficit. Second, the Balanced Budget and Emergency Deficit Control Act of 1985 called for a 4.3 percent cut in many domestic spending programs for 1986. This cut reduced obligations from the Highway Trust Fund by another $600 million for 1986. If the automatic reductions called for by the Balanced Budget Act take effect again in 1987, obligations could be cut by an additional 8.4 percent, or some $1.1 billion.

As a result of these changes, the projected financial strength of the fund has improved greatly. For example, under CBO's baseline assumptions--which do not include a spending cut in 1987--the cash balance in the Highway Trust Fund is projected to be $5.1 billion in 1990. Although the cash on hand is substantial, the Byrd Amendment would be triggered in 1988. Even if authorizations were reduced to equal total obligations, the Byrd Amendment would still be triggered in 1990 (see Table 2).

Figure 1 compares the trust fund balance under this baseline spending path with those under two other paths--one implied by the level originally

TABLE 2. FINANCIAL PROJECTIONS FOR THE HIGHWAY ACCOUNT OF THE HIGHWAY TRUST FUND UNDER CBO BASELINE
(In millions of dollars)

Fiscal Year	Authorizations	Total Obligations	Outlays	Income a/	Start of Year Cash Balance	Change	End of Year Cash Balance	Unfunded Authorizations
1986	14,900	13,400	13,900	12,900	10,350	(1,000)	9,350	20,850
1987	13,750	13,750	13,550	12,850	9,350	(700)	8,650	21,750
1988	14,150	14,150	13,600	12,850	8,650	(750)	7,900	23,050
1989	14,750	14,750	14,150	12,900	7,900	(1,250)	6,650	24,900
1990	15,350	15,350	14,600	13,000	6,650	(1,550)	5,100	27,200 b/
1991	15,900	15,900	15,150	13,250	5,100	(1,900)	3,200	29,850

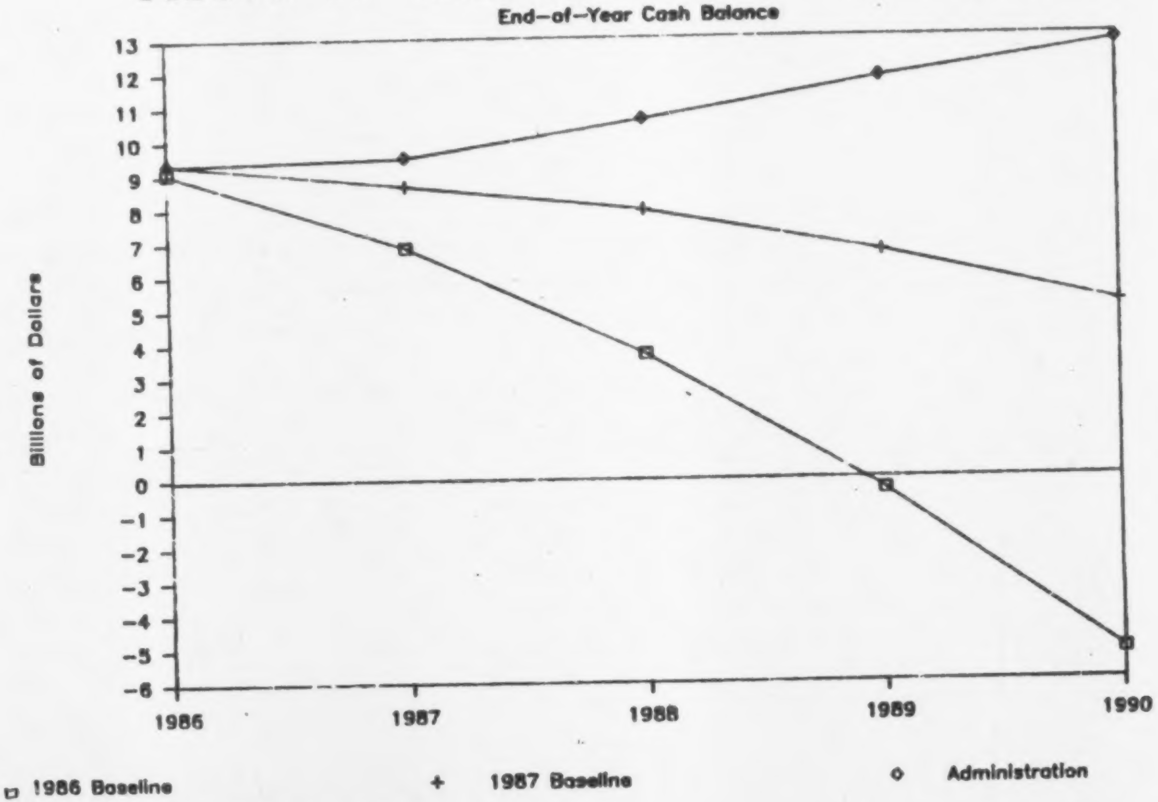
SOURCE: Congressional Budget Office. Obligations, outlays, and income are from CBO's baseline forecast which adjusts 1986 levels for inflation. Authorizations have been set equal to obligations.

NOTE: Totals may not add due to rounding. Parentheses denote negative numbers.

a. Includes tax revenues plus interest earned on the cash balance. Assumes that current highway excise taxes are extended beyond 1988.

b. Byrd Amendment criterion would be triggered. If authorizations were not set at obligations, but adjusted for inflation, the Byrd criterion would be hit two years earlier, in 1988.

FIGURE 1: HIGHWAY TRUST FUND OPTIONS



End-of-Year Cash Balance

SOURCE: Congressional Budget Office.

NOTE: Administration proposal assumes elimination of exemptions for gasohol and private buses.

authorized in 1986, and the other implied by the Administration's highway proposal. The latter would set authorizations and obligations equal to estimated tax receipts, excluding any interest earnings.

ALTERNATIVE WAYS TO CONTROL SPENDING

While obligation ceilings do effectively control outlays and improve the status of the trust fund, they suffer from the same drawbacks as the across-the-board cuts called for under the Balanced Budget Act of 1985. High priority programs are cut as much as less important ones. No attempt can be made to match budget cuts with federal highway priorities. Moreover, ceilings on obligations effectively transfer control over highway priorities from the federal government to state highway departments. The states, rather than the federal government, now choose how to allocate $2.2 billion in program cuts among various highway programs: completion of the Interstate, bridges, road repair, and so forth. Two other control mechanisms could achieve similar spending reductions with a more sensible allocation of funds. These mechanisms concern highways with a clear national interest and programs with more local interest.

Interstate System

The first mechanism involves the Interstate system. Many of the roads in this system connect cities in different states and thus are of clear national interest. About 1,100 miles of Interstate highways remain to be built, at an estimated cost of $23 billion.

Current budgetary pressures suggest the need for financial mechanisms that select the most beneficial projects. CBO has developed a very crude measure of the net benefits of completing the remaining gaps in the Interstate highway system. High priority roads are those where first year benefits exceed 10 percent of total construction costs; lower priority roads have first year benefits of less than 10 percent.

Table 3 divides these "High" and "Lower" priority roads into those with primarily national significance (that is, connecting cities in different states) and those others with primarily local significance. The key number in the table is in the upper left-hand corner: about one-fifth of the remaining Interstate costs are for high priority routes of primarily national importance.

Mechanical ceilings on obligations, such as the one now imposed, will encourage state highway departments to focus on roads with primarily local significance--the second row of Table 3. An alternative approach that makes more sense from a national standpoint is to develop a control mechanism that encourages highway departments to focus on the roughly one-half of the Interstate gaps with primarily national significance--the first row of Table 3. This mechanism could be developed most easily by retaining present generous federal matching rates for just the gaps with national significance and not for those with primarily local importance. If the present matching rates were made less generous for all highway programs, attention would be further focused on high priority roads with national significance. Either mechanism would cut down on trust fund outlays, but provide for a better allocation of those outlays that remained.

TABLE 3. REMAINING INTERSTATE GAPS GROUPED BY NATIONAL SIGNIFICANCE AND BY ESTIMATED RATE OF RETURN (In percent of cost to complete)

Category	High Priority	Lower Priority	Total
Primarily National Significance a/	20.6	28.9	49.5
Primarily Local Significance a/	26.0	24.5	50.5
Total	46.6	53.4	100.0

SOURCE: Congressional Budget Office.

a. See Congressional Budget Office, The Interstate Highway System: Issues and Options (April 1982).

Urban and Secondary Roads

A second control mechanism involves roads of mainly local interest--namely, the urban and secondary roads, and roads not part of the federal system. The federal government spends nearly $2 billion a year on the repair and construction of these roads. The most direct way to limit outlays in this area would be to turn complete responsibility back to state and local governments so that federal dollars could be concentrated on roads of greatest national priority. While this would impose greater financial burdens on state and local governments, states would now be free to set their own engineering and labor regulations.

The Administration's proposal for a transportation block grant is a step in this direction. By combining highway and transit funds, it would give localities the ability to trade off the strengths of each in solving local transport problems. The Administration plan calls for $2.2 billion in highway funds to be combined with $1.1 billion now supported by the one cent of the motor fuel tax dedicated to mass transit.

Toll roads represent a related problem. Since 1916 federal aid has been prohibited on these roads. The Administration has proposed relaxing this restriction but would continue the current 75 percent federal matching rate. But if its block grant approach were followed, it is not clear why toll roads--most of which are of local importance--could not simply be lumped into roads eligible for funding under the block grant.

REVENUE OUTLOOK

An alternative way to prevent slippage in the highway fund's cash balance is, of course, on the revenue side. A straightforward penny rise in the motor fuel tax would raise income to the trust fund by about $1.2 billion.

There is another factor. Over the past few months, the price of oil has dropped considerably, from about $30 a barrel last November to less than $15 a barrel in the futures markets today. CBO's baseline estimate of trust fund revenues assumes oil prices of about $23 per barrel in 1987. If the average cost to refiners stays below this level, however, revenues from the tax on motor fuels--and other highway excise taxes--will be higher than those projected in the baseline. Motor fuel use, and thus trust fund revenues, could be affected in four different ways.

First, in the short term, people will drive their existing vehicles somewhat more: planning more vacation trips by automobile, and so forth. Motor fuel use is not particularly sensitive to small shifts in price: a 10 percent change in the pump price of fuel is likely to result in only a 1 percent to 1.5 percent increase in driving. Nevertheless, if oil prices were to remain at $15 per barrel for just a year, federal highway excise tax revenues would increase by about $400 million annually. 1/

Second, the longer the drop in oil prices persists, the greater the impact on fuel use is likely to be as consumers and businesses become less concerned with fuel economy in their purchases of new vehicles. Thus, the average fuel economy of new cars would be less than with higher prices, although still well above that of most older vehicles. For example, if oil prices were to remain at $15 a barrel through 1991, the expected trust fund revenues could increase by as much as $1 billion a year by that time.

Third, lower oil prices might also make gasohol production uneconomical. Because they are exempt from six cents of the nine cent per gallon federal tax on gasoline, gasohol producers receive a federal subsidy of 60

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1. This amount represents the expected change in revenues to the Highway Trust Fund. The effect on total federal revenues would be about 25 percent less.

cents per gallon of ethanol (gasohol contains 10 percent ethanol and 90 percent gasoline). Even with this support, and similar exemptions from many state gas taxes, gasohol may not be a competitive substitute for gasoline if the gas price drops sufficiently. The eventual effect on the trust fund could also be significant, since the gasohol subsidy now reduces trust fund receipts by about $500 million a year.

Finally, lower oil prices would have an effect on the level of real GNP, and thus highway use by autos and trucks. As a rule of thumb, each percent increase in GNP (Gross National Product) results in one percent more highway use. The magnitude of any economic shifts is quite speculative since other economic forces, most importantly monetary policy, may offset this impact. In any case, the possibility of higher GNP levels means that our estimate of the effect of lower oil prices on fuel use could be conservative.

That concludes my prepared remarks, Mr. Chairman. I would be pleased to answer any questions you might have.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Rudolph G. Penner
Director

April 11, 1986

Honorable Robert T. Stafford
Chairman
Committee on Environment
and Public Works
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In response to your letter of March 11, 1986, enclosed are answers to the questions for the record submitted by yourself and Senators Bentsen and Burdick in response to CBO's testimony on March 6, 1986. Please let me know if you have further questions.

With best wishes,

Sincerely,

Edward

Rudolph G. Penner

QUESTIONS FROM SENATOR STAFFORD

1. **Question:** You stated in your testimony that authorizations have been higher the last few years than the annual obligation ceiling. This means room has been used up regarding the Byrd Amendment, but States are not able to use those funds. In your opinion, what would be the best way to fix that problem?

Answer: There are two basic ways to redress this imbalance. First, future authorizations could be set below future obligation ceilings until the current "backlog" is reduced. A difference of about $800 million a year for the next four years would be necessary just to offset the gap that has developed over the past four years. Second, selected authorizations from previous years could be rescinded. This second option would provide the Congress with the opportunity to shift spending from programs that now appear to be of relatively low federal priority and toward those areas of greatest national interest. On the other hand, a rescission might force states to adjust some of their construction plans.

2. **Question:** What authorization and spending level for the highway program could the Highway Account of the Trust Fund support over the next four years, including tax receipts, interest and the existing balance? Is there any reason why the next authorization bill should not reflect the maximum program level the Trust Fund can support?

Answer: Under the CBO baseline, total highway authorizations of about $14.1 billion could be supported over the next four years (including NHTSA, which is under the jurisdiction of the Senate Commerce Committee). This level would reduce the cash balance by about $5 billion or $6 billion. Spending of about $13.2 billion could be supported while maintaining the cash balance at roughly current levels. If oil prices were to stay at $15 per barrel through 1991, more than $15.5 billion a year could be supported, although with a drawdown of the cash balance.

The Congress might authorize less than the maximum for two reasons. First, the maximum that could be authorized over the next four years is less than the maximum that could be supported indefinitely. This would occur because, if the cash balance was used to finance spending through 1990, it would not be available to support future levels. In the long run, outlays have to stay in balance with trust fund revenues. Second, since highway spending affects the overall federal deficit just as does spending on nontrust fund programs, the Congress might wish to limit highway spending as part of its efforts to reduce the deficit.

3. Question: Do you believe that spending in the highway program within the limits of the Byrd Amendment in any way affects the Federal deficit?

Answer: Each dollar change in highway spending affects the federal deficit by a dollar. Interest on the cash balance in the trust fund is treated as an intragovernmental transfer, and thus would affect the deficit only if the trust fund were abolished. Each dollar change in revenues also affects the federal deficit by one dollar. The net federal deficit is increased any time trust fund outlays exceed trust fund revenues. Therefore, any increase in revenues or decrease in outlays will decrease the overall federal deficit. However, the Byrd Amendment was designed to prevent the trust fund from bankruptcy and not as a general means to control federal spending.

4. Question: What impact have the user fee exemptions had on Trust Fund income, particularly the gasohol exemption?

Answer: Exemptions from highway excise taxes lowered the revenues received by the Highway Trust Fund by roughly $1 billion in fiscal year 1985. The gasohol exemption accounted for about $400 million of that sum. Exemption of state and local governments from paying any federal highway excise taxes reduced trust fund revenues by about $500 million. Private and public bus exemptions totalled roughly $100 million. Revenues were lowered by an additional $100 million through provisions designed to address cost allocation concerns. These are the diesel fuel credit for vehicles that weigh less than 10,000 pounds and exemptions from the heavy vehicle use tax for vehicles that travel only limited amounts. By 1990, the amount of these exemptions is expected to increase to about $1.3 billion, with gasohol alone accounting for almost $600 million.

5. Question: What will be the effect on the consumption of gasoline and Trust Fund revenues of lower oil prices?

Answer: The effect of lower oil prices on trust fund revenues depends on two factors: at what level will process stabilize and how long will they stay at these lower levels. To summarize the detailed discussion in the CBO testimony, if oil prices average $15 a barrel for the next year, and then return to about the level assumed under CBO's baseline projection, trust fund revenues could increase by an annual rate of about $400 million. If these lower prices persist for as long as five years, the impact would eventually reach substantially greater levels: $1 billion from the direct effect on increased use of fuel and trucks, $500 million from the switch from gasohol to fully taxed gasoline, and possible additional sums depending on the amount of stimulus provided to overall economic growth.

6. Question: Will lower oil prices have any effect on the use of gasohol, and on its ability to compete, particularly without a subsidy? If a subsidy is necessary to make gasohol competitive, how should this subsidy be funded?

Answer: Even at the higher oil prices of a year ago, gasohol could not compete with gasoline without the 60 cent per gallon federal subsidy. If oil prices remain low--say about $15 per barrel--gasohol would not be competitive even with current federal and state subsidies. The Congress must decide whether or not to provide this subsidy and how to finance it. Public finance principles, however, argue for direct subsidies rather than indirect tax expenditures. This makes it easier for the Congress to evaluate periodically the effectiveness of the subsidy.

7. Question: What level of additional authorizations could be made without a Highway Trust Fund extension beyond 1988? What level of additional apportionments could be released to the States on October 1, of this year without a Trust Fund extension?

Answer: The level of authorizations depends on the level of obligations since this, in turn, affects the cash balance and, thus, the interest income. Obligations of $13.4 billion (including a $12.5 billion ceiling for Federal-Aid Highways) would exhaust all remaining unobligated authorizations as well as new authorizations for 1987 of $5.6 billion. New apportionments could be set at the same $5.6 billion level. If obligations were held equal to new authorizations, the cash balance would increase, permitting a slightly higher level of new authorizations for 1987. These estimates were calculated from CBO's baseline revenue projections. Under the lower oil price scenario discussed in our testimony, excise tax revenues would increase to permit about $6.6 billion in new authorizations for 1987 and $14.4 billion in total obligations.

8. Question: What impact will a new tax on imported oil or an additional gas tax to balance the budget have on gas consumption and revenues into the Highway Trust Fund?

Answer: A federal tax on oil would reduce the consumption of motor fuel and, thus, reduce trust fund revenues below the levels they would have reached without the tax increase. Since motor fuel use is not particularly sensitive to price changes, this reduced use would be substantially less than the expected increase in overall federal revenues. Unless the tax increase brought the price of fuel to a level greater than that assumed under CBO's current baseline projection (basically $23 to $25 per barrel of oil), there could still be an increase in CBO's baseline projection of trust fund revenues.

9. Question: What assumptions have you used for calculating the inflation factor for highway construction the past few years and the next several years?

Answer: For the next five years, we have used about 4.1 percent a year, CBO's forecast for the GNP deflator. In recent years, the change in highway construction costs have approximated this index.

10. Question: In your analysis of the work remaining on the Interstate System, what portion of it is necessary to mobility, the movement of goods, and national defense?

Answer: Our analysis is based on a study we prepared for this Committee (The Interstate Highway System: Issues and Options, June 1982). We defined national importance as those roads needed to complete an interconnected nationwide system of expressways--the original goal set in 1956. Based on a segment-by-segment analysis of the remaining routes, about 60 percent (some 900 miles) met this criterion. Because these were mostly rural sections, they accounted for only about one-fourth of the remaining cost to complete the entire Interstate. The other 40 percent of the miles were primarily to provide accessibility within urban areas--beltways and downtown routes, such as Westway in New York City and the Century Freeway in Los Angeles.

Although only one-fourth of the costs were for routes of national importance, we have used one-half as the cutoff point because the federal government has already made construction commitments to some of the remaining segments.

Our focus on routes of national significance should not be interpreted to mean that all these routes are economically sound projects or that all the excluded local routes are unsound projects. Rather, the distinction is based on the need to focus scarce federal dollars on priority projects. At the current 90 percent federal match, states have no incentive either to weed out those projects in which the economic benefits do not exceed the costs or to redesign the projects to be more cost-effective. (Westway provides a good example of this latter point, since there are different alignments that would provide the same transportation benefits but cost a fraction of the $2 billion.) If federal aid were to be continued for these routes, a lower match might be appropriate.

11. Question: It has been suggested that permitting the use of Federal-aid funds on new toll roads is double taxation. What is your response to this?

Answer: Tolls need not represent double taxation. Rather, they merely represent an alternative to highway excise taxes as a means of financing roads. Tolls can provide an efficient way to finance road construction when projects are deferred because of funding delays or can be used as a means of controlling traffic congestion. A double taxation argument could be made only if toll receipts were used to support nonhighway programs or if highway excise taxes were diverted to nonhighway uses as a consequence of the additional funds provided by tolls.

12. Question: The trucking industry has opposed the use of Federal-aid funds on toll roads. Do you have any information regarding the use of existing toll roads by trucks, particularly where there is a choice of a toll road and a free road? What is the best way to prevent States from imposing discriminatory tolls on trucks?

Answer: Trucks account for about 30 percent of traffic on rural Interstates and 20 percent on urban Interstates. Their use of toll routes varies considerably, but does not, on average, appear to differ significantly from that of nontoll roads. We do not have information on specific, adjacent toll and nontoll roads. Since most of the proposed new toll routes are in urban and suburban areas, they will probably be used less by large trucks in general and by the combination trucks in particular. As long as there are nearby nontoll roads to provide competition, there would appear to be little need for federal regulations. Most new toll road proposals concern urban or suburban routes--areas where there usually are alternative routes.

13. Question: What effect will provisions in the House-passed tax reform bill have on the bond market, particularly on States' ability to use bonds for toll roads and for financing other highway construction?

Answer: H.R. 3838 would have no direct effect on the states' ability to issue tax-exempt bonds for toll roads and highway construction. Under the provisions of the House bill, these purposes are "essential" functions. Only "nonessential" functions---primarily private-sector activities--are subject to limits. Similarly, the draft Senate Finance Committee bill would provide no direct limits on toll road bonds.

Tax reform is likely to affect the general market for tax-exempt bonds in several, somewhat contradictory ways, however. The lowering of marginal tax rates should lead to an increase in short-term tax-exempt rates, relative to taxable rates. Long-term rates might increase for the same reason, but the outlook is uncertain because over time the volume of new bonds should decline. This could partially offset the effects of lower marginal tax rates. Another factor that could result in lower relative tax-exempt rates is the reduction in other tax shelters. This should increase demand for the remaining tax-exempt bonds.

Other provisions could increase relative rates--the proposed restrictions on arbitrage and refinancing, for example. Further, it is not clear what effect tax reform as a whole would have on interest rates in general. The lower marginal tax rates could, in theory, encourage lower overall rates.

14. Question: What level of cash should be maintained in the Highway Account for sound financial management?

Answer: Cash is needed as a supplement in case outlays exceed expected revenues. If budget forecasts were precise, the amount of cash could be kept to very low levels. In recent years, the difference between the cash requirements estimated at the time of the President's budget and the actual cash on hand at the end of the fiscal year has often exceeded $2 billion. Thus, a projected end-of-year cash balance of between $2 billion and $3 billion would appear prudent. Of course this would provide only limited protection against a long-term imbalance between spending and revenues.

15. Question: The Administration bill does not include interest income to the Highway Account or the existing balance in the fund in determining its annual program level. Why shouldn't interest income and the existing balance be put back into the highway program?

Answer: To the extent that highway spending exceeds the level of excise tax revenues, the overall federal deficit is increased. Thus spending that incorporates either interest income or the cash balance adds to the federal deficit. Of course, the cash balance and the interest it earns represent payments to compensate highway users for the delay between payment of highway taxes and spending on highways. A delay in using these funds for highways may be justified if one believes that controlling the federal deficit is of paramount importance.

16. Question: In your analysis of remaining Interstate gaps, you measured the benefits of completing these gaps and divided them into high priority roads and lower priority roads. What kinds of things were considered to be benefits?

Answer: Because of data limitations, the benefits CBO considered were limited to direct transportation benefits, such as travel time savings, reduced congestion, and lower operating costs. Likewise, the costs were limited to direct construction costs. While such data are not sufficient to decide whether or not a particular route segment is due for construction, they are adequate to show the range of returns expected from the remaining gaps.

17. Question: What happens to the viability of toll road financing if the commingling of toll receipts and Federal-aid funds is permitted? What level of Federal match should be provided for such roads?

Answer: As with any capital investment, the greater the level of outside contribution, the more projects that will appear feasible. As discussed in the CBO report prepared for this committee (Toll Financing of U.S. Highways), toll road construction has declined for two primary reasons: a broad, competitive network of nontoll roads and increased costs of construction and financing. Governmental subsidies, whether by the federal or state and local governments, could help offset some of the increased costs. Only a relatively modest federal match--perhaps 25 percent--is needed to significantly influence the number of new roads that would be feasible as toll projects. Indeed, if interest rates were to remain at their current low levels (under 8 percent for revenue bonds), a strong case could be made that no federal subsidy is needed at this time.

QUESTIONS FROM SENATOR BENTSEN

1. Question: You say that under CBO's baseline assumptions--which do not include a spending cut in 1987--you project a cash balance in the trust fund of $5.1 billion in 1990. Nevertheless, you project that the Byrd Amendment would be triggered in 1988.

   If there is a spending cut in 1987, a distinct possibility, how much of a cut would be necessary to avoid triggering the Byrd Amendment?

   Answer: It is not the level of spending (outlays) that would cause the Byrd Amendment to be triggered in 1988. Rather, because past authorizations have exceeded the funds available for obligation, the level of unfunded authorizations is close to the limits set by the Byrd Amendment. Under the CBO baseline, holding future authorizations to the level of obligations would be adequate to delay the Byrd Amendment until 1990.

2. Question: You discuss roads that are identified as having primarily national significance based on the fact that they connect cities in different states. Please identify those highways and describe their general distribution throughout the U.S.

   Answer: There is no clear geographical pattern to these roads of "national" significance. Most roads of local importance are in urban or suburban areas. Appendix C to our earlier report, *The Interstate Highway System: Issues and Options* (June 1982), classifies all the gaps as of 1982 by local and national importance.

3. Question: You suggest that present matching ratios should be kept on roads of national significance to encourage their completion and that roads of primarily local significance should have less attractive matching ratios.

   Do you have recommendations regarding what those new matching ratios should be? Please elaborate.

   Answer: We do not have specific recommendations as to the matching ratios for these two classes of roads. There should, however, be a significant difference if a proper incentive is to be provided for projects of primarily national importance. This criterion might imply a matching ratio of less than 50 percent for the nonnational portions of the federal program.

QUESTIONS FROM SENATOR BURDICK

1. Question: What is the Congressional Budget Office's current estimate of trust fund revenues? Based on projected revenues, what level of program authorization could be supported?

Answer: CBO's baseline projections of total Highway Trust Fund revenues and that portion allocated to the Highway Account are shown below. These projections exclude any interest earned by the cash balance in the fund. The authorization level that these revenues could support depends on Congressional policy toward the level of cash maintained in the fund and on the number of years of authorization. If the cash balance is permitted to drop, average authorizations (and obligations) of about $14.1 billion could be sustained over the next four years. Such a level of spending exceeds CBO's baseline revenue projections, and is realistic only if a cut in the program is assumed upon completion of the Interstate system or if revenues turn out to be higher (say because of reduced oil prices) or outlays lower than projected. If the cash balance were to be maintained at roughly its current level of $9.3 billion, authorizations of $13.2 billion a year could be supported under CBO's baseline revenue assumptions.

HIGHWAY TRUST FUND REVENUES FROM HIGHWAY EXCISE TAXES
(In billions of dollars)

Fiscal Year	Total Trust Fund	Highway Account Only
1986	13.1	11.9
1987	13.2	12.0
1988	13.4	12.1
1989	13.5	12.3
1990	13.8	12.5
1991	14.2	12.9

2. Question: Under the Administration's proposal, what would be the balance of the Highway Trust Fund in September 1991? If you increased those authorization levels by interest income, what would be the balance? Under those proposals, would the Byrd Amendment be triggered?

Answer: The Administration has proposed average highway authorizations of $12.95 billion over the next four years as well as an increase in trust fund revenues from the elimination of the current exemptions for gasohol and private buses. These tax changes would represent an annual increase in trust fund tax receipts of about $600 million over current law. The Administration would continue to accrue interest to the trust fund even though interest income was not considered in arriving at their proposed authorization level. CBO estimates that by 1991 the cash balance under this proposal would be about $14.3 billion, $5 billion higher than its current level. On the other hand, if annual authorizations were set at $13.6 billion (roughly equal to current tax receipts plus revenues from the gasohol and private bus exemptions), the cash balance would reach roughly $11.0 billion by 1991. The Byrd Amendment would not be triggered through 1991 under either of these proposals.

3. Question: What is the current estimate of the gasohol exemption?

Answer: CBO's current estimate of the reduction in trust fund revenues because of the gasohol exemption are as follows:

Fiscal Year	Billions of Dollars
1986	0.4
1987	0.5
1988	0.6
1989	0.6
1990	0.6
1991	0.6

4. Question: What would be the net effect of removing the Highway Trust Fund from the unified budget?

Answer: Under the CBO baseline, outlays from the Highway Trust Fund (including the mass transit account) are projected to exceed revenues by nearly $4 billion over the next five years. Under the current budget structure, then, the Highway Trust Fund would contribute to the federal deficit. If the Highway Trust Fund were removed from the unified budget, the remaining on-budget deficit would decrease.

It is important to point out that removing the Highway Trust Fund from the unified budget would have no effect on overall federal spending. Rather, it would change on-budget spending and revenues, with an offsetting shift in the off-budget figures. Removal from the unified budget also would have no impact on any future across-the-board reductions in spending that may be mandated by the Balanced Budget Act of 1985. That law applies to all programs, on-budget as well as off-budget, except those that are specifically exempted by the legislation.

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